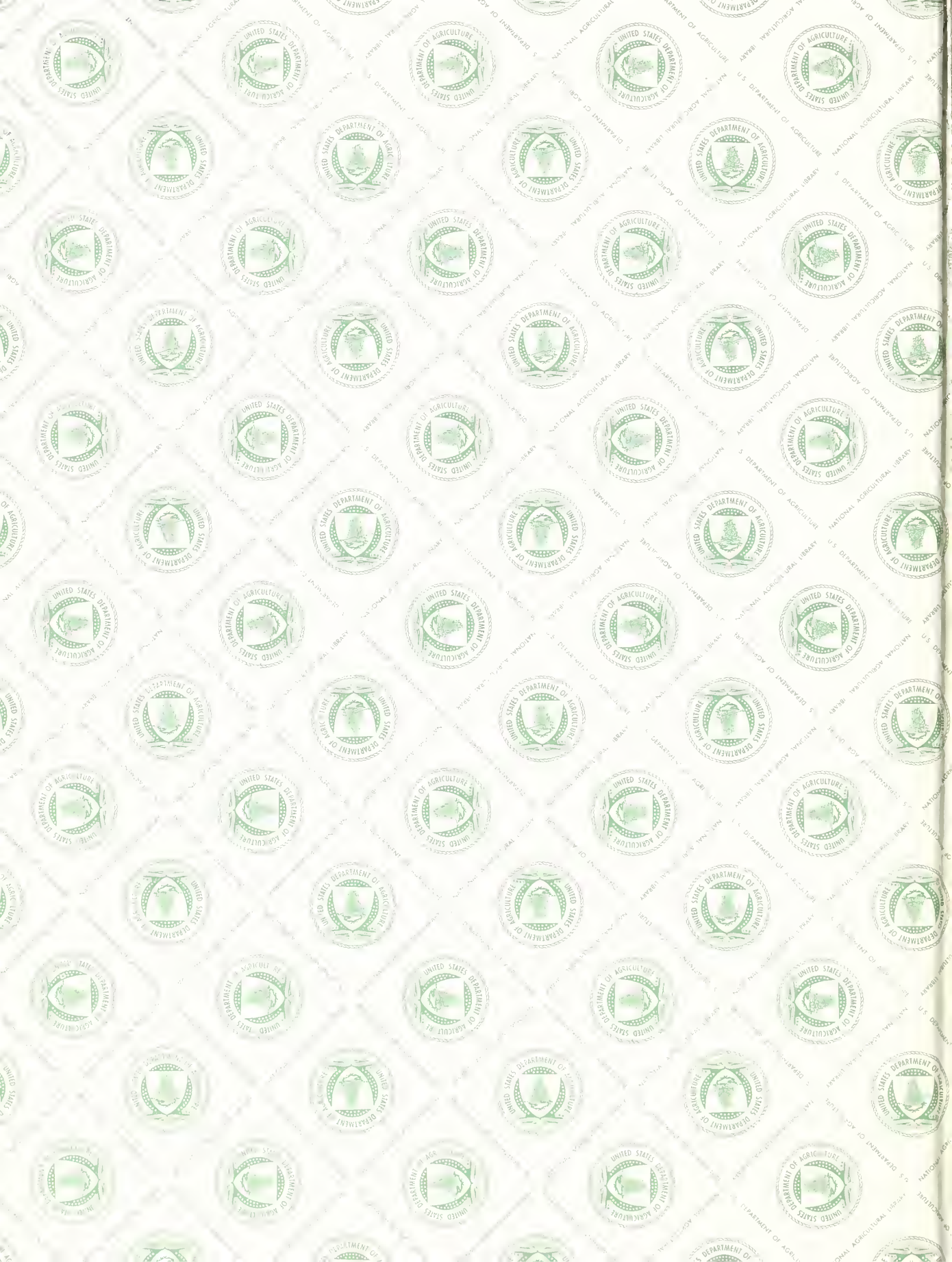


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9:00 REGISTRATION: USDA South Building, 5th Wing Lobby,
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THE SITUATION AND OUTLOOK FOR 1968

Thomas Jefferson Memorial Auditorium
USDA South Building

M. L. Upchurch, Administrator,
Economic Research Service, USDA, Chairman

- 9:30 OPENING OF CONFERENCE--Raymond C. Scott, Assistant
Administrator, Federal Extension Service, USDA
- 9:40 Orville L. Freeman, Secretary of Agriculture
- 10:00 NATIONAL ECONOMIC SITUATION AND OUTLOOK FOR 1968
John W. Kendrick, Professor, George Washington University
Total Investment Project
- 10:30 INTERMISSION
- 10:45 AGRICULTURAL SITUATION AND OUTLOOK FOR 1968--Rex
F. Daly, Chairman, Outlook and Situation Board, ERS, USDA
- 11:15 PANEL DISCUSSION--M. L. Upchurch, USDA, Moderator
John W. Kendrick, George Washington University
Rex F. Daly, USDA
Francis A. Kutish, Staff Economists Group, USDA
James H. Knowles, Director of Research, Congressional
Joint Economic Committee
Hyman J. Lewis, Chief, Division of Economic Studies, Bureau
of Labor Statistics, U.S. Department of Labor
Louis J. Paradiso, Associate Director, Office of Business
Economics, U.S. Department of Commerce

FOREIGN TRADE SITUATION AND OUTLOOK

Thomas Jefferson Memorial Auditorium
USDA South Building

George L. Mehren, Assistant Secretary, USDA, Chairman

- 2:00 A NEW LOOK AT THE WORLD FOOD SITUATION--Martin E. Abel, Deputy Assistant Secretary, USDA
- 2:30 A LOOK AHEAD AT TRADE POLICY--Howard L. Worthington, Deputy Assistant Administrator, Foreign Agricultural Service, USDA
- 3:00 INTERMISSION
- 3:10 THE COMMODITY TRADE OUTLOOK--Raymond A. Ioanes, Administrator, Foreign Agricultural Service, USDA
- 3:40 PANEL DISCUSSION--George L. Mehren, USDA, Moderator
Martin E. Abel, USDA
Howard L. Worthington, USDA
Raymond A. Ioanes, USDA
Robert L. Tontz, Chief, Trade Statistics and Analysis Branch, Foreign Development and Trade Division, ERS, USDA
Frank R. Ellis, Director, Food for Freedom Service, Office of War on Hunger, Agency for International Development, U.S. Department of State

STRUCTURE OF AGRICULTURE

Thomas Jefferson Memorial Auditorium
USDA South Building

Walter W. Wilcox, Director,
Agricultural Economics, USDA, Chairman

- 9:00 FARMING AND THE RURAL SCENE--CHANGES IN ORGANIZATION, OPPORTUNITIES, AND PROBLEMS--M. L. Upchurch, Administrator, Economic Research Service, USDA
- 9:30 CHANGING MARKETING ACTIVITIES AND ORGANIZATIONS
Winn F. Finner, Associate Administrator, Consumer and Marketing Service, USDA
- 10:00 INTERMISSION
- 10:15 PEOPLE IN CHANGING RURAL AMERICA--WHAT IS AHEAD?
Max F. Jordan, Head, Poverty Analysis Group, ERS, USDA
- 10:45 PANEL DISCUSSION--Walter W. Wilcox, USDA, Moderator
M. L. Upchurch, USDA
Winn F. Finner, USDA
Max F. Jordan, USDA
Margaret C. Browne, Director, Division of Home Economics, FES, USDA
James G. Maddox, Professor of Economics, North Carolina State University

FEED, LIVESTOCK, AND MEAT

Thomas Jefferson Memorial Auditorium

Homer S. Porteus, Marketing Economist, Div. of Marketing &
Utilization Sciences, FES, USDA, Chairman

- 1:30 OUTLOOK STATEMENT--Malcolm Clough, Head, Feed Section,
Economic & Statistical Analysis Div., ERS, USDA
- 2:00 PANEL DISCUSSION--Homer S. Porteus, FES, Moderator;
Malcolm Clough, ERS; Charles Burkhead, Agricultural Esti-
mates Div., SRS; Francis Kutish, Staff Economists Group;
Donald Novotny, Grain & Feed Div., FAS; and Roland Stelzer,
Policy & Program Appraisal Div., ASCS
- 2:50 INTERMISSION
- 3:10 OUTLOOK STATEMENT--A. Donald Seaborg, Acting Head, Live-
stock Section, Economic & Statistical Analysis Div., ERS, USDA
- 3:40 PANEL DISCUSSION--Homer S. Porteus, FES, Moderator;
A. Donald Seaborg, ERS; Robert Christensen, Agricultural Esti-
mates Div., SRS; James Hartman, Livestock & Meat Products
Div., FAS; and Michael Newborg, Livestock Division, C & MS

DAIRY

Thomas Jefferson Memorial Auditorium

Fred C. Webster, Dairy Marketing Economist,
University of Vermont, Chairman

- 9:15 OUTLOOK STATEMENT--Anthony G. Mathis, Head, Dairy
Section, Economic & Statistical Analysis Division, ERS, USDA
- 9:45 PANEL DISCUSSION--F. C. Webster, U. of Vt., Moderator;
to A. G. Mathis, ERS; Gordon G. Butler, Agricultural Estimates
10:40 Div., SRS; A. R. DeFelice, Ass't. Administrator, International
Trade, FAS; Harlan Emery, Livestock & Dairy Policy Staff,
ASCS; R. W. March, Dairy Div., C & MS; and W. B. Sundquist,
Farm Production Economics Div., ERS

POULTRY AND EGGS

Thomas Jefferson Memorial Auditorium

Richard G. Ford, Extension Economist, Div. of Marketing &
Utilization Sciences, FES, USDA, Chairman

- 10:50 OUTLOOK STATEMENT--Opie C. Hester, Head, Poultry
Section, Economic & Statistical Analysis Division, ERS, USDA
- 11:10 PANEL DISCUSSION--R. G. Ford, FES, Moderator; O. C. Hester,
to ERS; Jerry Cox, Extension Poultry Marketing Specialist, U. of
12:15 Georgia; Gene Futrell, Extension Economist, Iowa State U.;
G. Alvin Carpenter, Extension Economist, U. of California at
Berkeley

VEGETABLES AND POTATOES

Room 3056, South Building

Ernest J. Holcomb, Chief, Vegetable Branch,
Fruit & Vegetable Div., C & MS, USDA, Chairman

- 1:30 OUTLOOK STATEMENT--Donald S. Kuryloski, Head, Vegetable Section,
Economic & Statistical Analysis Div., ERS, USDA
- 1:45 to 2:30 PANEL DISCUSSION--E. J. Holcomb, C & MS, Moderator; D.S. Kuryloski,
ERS; and William J. Cremins, Fruit & Vegetable Div., FAS

SUGAR

Room 3115, South Building

Tom O. Murphy, Director, Sugar Policy Staff,
ASCS, USDA, Chairman

- 1:30 to 2:30 PANEL DISCUSSION--T. O. Murphy, ASCS, Moderator; John I. Kross, Su-
gar & Tropical Products Div., FAS; Roy Ballinger, Marketing Economics
Div., ERS; and Fred Gray, Economic & Statistical Analysis Div., ERS

FRUITS AND TREE NUTS

Room 3056, South Building

John Porter, Economist, Div. of Marketing
& Utilization Sciences, FES, USDA, Chairman

- 3:00 OUTLOOK STATEMENT--Charles R. Brader, Head, Fruit Section, Eco-
nomic & Statistical Analysis Division, ERS, USDA
- 3:20 to 4:15 PANEL DISCUSSION--Gilbert E. Sindelar, Fruit & Vegetable Div., FAS;
Malvin E. McGaha, Fruit & Vegetable Div., C & MS; and John E. Clayton,
Transportation & Facilities Research Div., ARS.

COTTON

Conference Room B-1048, Museum of History and Technology

Edgemond P. Callahan, Economist, Div. of Agricultural
Science, Technology & Management, FES, USDA, Chairman

- 2:45 OUTLOOK STATEMENT--James R. Donald, Head, Cotton & Other Fibers
Section, Economic & Statistical Analysis Div., ERS, USDA
- 3:00 to 4:15 PANEL DISCUSSION--E. P. Callahan, FES, Moderator; J. R. Donald, ERS;
Charles H. Barber, Cotton Div., FAS; William C. Hinson, Agricultural
Estimates Div., SRS; Joseph A. Moss, Cotton Policy Staff, ASCS; and
Stanley C. Rademaker, Cotton Div., C & MS

FATS, OILS, AND OILSEEDS

Museum of History and Technology Auditorium

John R. Paulling, Coordinator, Plant Science Program, Div. of Agr. Science, Technology & Management, FES, USDA, Chairman

- 9:15 OUTLOOK STATEMENT--George W. Kromer, Head, Fats & Oils Section, Economic & Statistical Analysis Div., ERS, USDA
- 9:35 PANEL DISCUSSION--J. R. Paulling, FES, Moderator; G. W. Kromer, ERS; F. A. Kutish, Staff Economists Group; J. E. Thigpen, Oilseed & Peanut Policy Staff, ASCS; and H. V. Robinson, Fats & Oils Div., FAS
- 10:40

FOREST PRODUCTS

Room 3115, South Building

Paul O. Mohn, Economist, Div. of Marketing & Utilization Sciences, FES, USDA, Chairman

- 9:15 OUTLOOK STATEMENT--Dwight Hair, Economist, Div. of Forest Economics & Marketing Research, FS, USDA, followed by open discussion
- to
- 10:40

WHEAT

Museum of History and Technology Auditorium

Buel F. Lanpher, Coordinator, Farm Management, Div. of Agr. Science, Technology & Management, FES, USDA, Chairman

- 10:50 OUTLOOK STATEMENT--William R. Askew, Head, Food Grains Section, Economic & Statistical Analysis Div., ERS, USDA
- 11:20 PANEL DISCUSSION--B. F. Lanpher, FES, Moderator; W. R. Askew, ERS; V. R. McMinimy, Staff Economists Group; C. V. Jean, Grain & Feed Div., FAS; and J. E. Evans, Commodity Operations, ASCS
- 12:30

TOBACCO

Room 3056, South Building

Claude G. Turner, Director, Tobacco Policy Staff, ASCS, Chairman

- 10:50 OUTLOOK STATEMENT--S. M. Sackrin, Acting Head, Tobacco & Specialty Crops Section, Economic & Statistical Analysis Div., ERS, USDA
- 11:20 PANEL DISCUSSION--C. G. Turner, ASCS, Moderator; S. M. Sackrin, ERS; S. E. Wrather, Tobacco Div., C & MS; H. C. Kiger, Tobacco Div., FAS; E. L. Moore, Crops Research Div., ARS; and J. W. H. Brown, Marketing Economics Div., ERS
- 12:30

FOOD

Conference Room B-1048, Museum of History and Technology
Constitution Avenue between 12th and 14th

Faith Clark, Director,
Consumer and Food Economics Research Division,
Agricultural Research Service, USDA, Chairman

- 1:30 OUTLOOK FOR SUPPLIES AND PRICES OF FOOD--Stephen J. Hiemstra, Head, Food Consumption and Utilization Section, Economic and Statistical Analysis Division, ERS, USDA
- 2:15 FOOD EXPENDITURES AWAY FROM HOME--Corrine LeBovit, Food Economist, Economic and Statistical Analysis Division, ERS, USDA
- 3:00 INTERMISSION
- 3:30 PRACTICES IN THE USE OF HOME FREEZERS--Ruth Redstrom, Food Economist, Consumer and Food Economics Research Division, ARS, USDA
- 4:15 HOUSEHOLD USE OF CONVENIENCE FOODS--Gordon Bivens, Consumption Economist, Consumer and Food Economics Research Division, ARS, USDA

FAMILY INCOME AND EXPENDITURES

Conference Room B-1048, Museum of History and Technology
Constitution Avenue between 12th and 14th

Jean L. Pennock, Chief, Family Economics Branch,
Consumer and Food Economics Research Division,
Agricultural Research Service, USDA, Chairman

- 9:00 TRENDS IN RETAIL PRICES--James C. Daugherty, Chief, Retail Prices Branch, Division of Consumer Prices and Price Indexes, Bureau of Labor Statistics
- 9:45 THE FEDERAL MEDICARE PROGRAM--John Noble, Special Assistant to the Director, Bureau of Health Insurance, Social Security Administration
- 10:30 INTERMISSION
- 10:45 NEW BLS STANDARD BUDGETS AND LIVING COST INDEXES
Helen Lamale, Chief, Division of Living Conditions Studies, Bureau of Labor Statistics
- 11:30 INCOME NEEDED FOR EQUIVALENT LEVELS OF LIVING FOR FARM AND URBAN FAMILIES--Carol Jaeger, Statistician, Consumer and Food Economics Research Division, ARS, USDA

CONSUMER PROTECTION

Auditorium, Museum of History and Technology
Constitution Avenue between 12th and 14th

Gordon Bivens, Consumption Economist,
Consumer and Food Economics Research Division,
Agricultural Research Service, USDA, Chairman

- 1:30 NEW DEVELOPMENTS IN CONSUMER PROTECTION--
Kate Stahl, Coordinator of Consumer Services, Food and Drug
Administration
Gale P. Gotschall, Assistant General Counsel for Federal-State
Cooperation, Federal Trade Commission
Albert B. Kelley, Director, Office of Public Affairs, Federal
Highway Administration, Department of Transportation
Robert J. Anderson, Associate Administrator, ARS, USDA
Robert K. Somers, Deputy Administrator, C & MS, USDA
- 3:15 INTERMISSION
- 3:30 A STATE PROGRAM OF CONSUMER PROTECTION--
Faith Prior, Family Economist, University of Vermont
- 4:00 PANEL DISCUSSION: IMPLICATIONS FOR THE FAMILY
Gordon Bivens, USDA, Moderator
Kate Stahl, Food and Drug Administration
Gale P. Gotschall, Federal Trade Commission
Albert B. Kelley, Department of Transportation
Robert J. Anderson, USDA
Robert K. Somers, USDA
Faith Prior, University of Vermont

COMMUNITY FACILITIES

Conference Room B-1048, Museum of History and Technology
Constitution Avenue between 12th and 14th

Helen Turner, Assistant Director,
Division of Home Economics,
Federal Extension Service, USDA, Chairman

9:00. RURAL HEALTH CARE FACILITIES--Harald M. Graning,
Assistant Surgeon General, Public Health Service, Department of Health, Education and Welfare

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DAIRY SITUATION

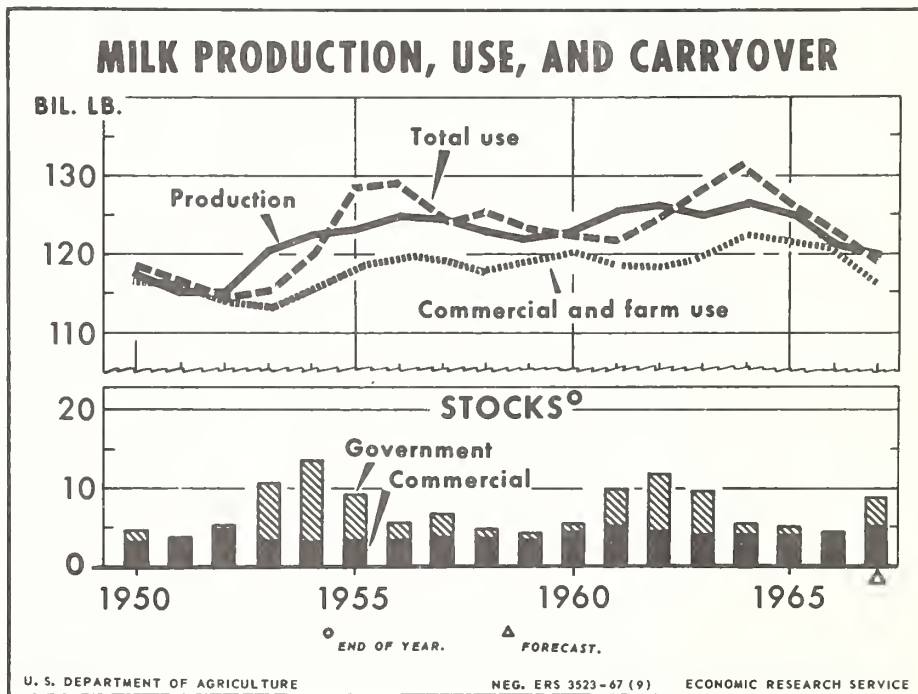


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DS-318

For A.M. Release, November 6, 1967

U.S. milk output in 1967 may total slightly less than the 120.2 billion pounds in 1966. Commercial and farm use likely will be down about 5 billion pounds (milk equivalent) from the 1966 level. However, increased USDA donations of dairy products for domestic programs have risen, so total use likely will decline only about 3 billion pounds. Stocks of dairy products at the end of 1967 are estimated at over 8 billion pounds (milk equivalent), sharply above year-earlier levels. Milk production in 1968 is forecast about the same as this year. Total use of milk may increase next year, as commercial sales and USDA donations of dairy products both are expected to rise.



IN THIS ISSUE

Production and Price Prospects

Utilization of Milk Supplies

Household Dairy Consumption

Published five times a year by
ECONOMIC RESEARCH SERVICE • U.S. DEPARTMENT OF AGRICULTURE

U. S. Dairy Situation at a Glance

Item	Unit or base period	1965		1966		1967				
		Sept.	July	Aug.	Sept.	Year	June	July	Aug.	Sept.
Milk production:										
Milk on farms	Mil. lb.	9,272	10,350	9,763	9,263	120,230	11,146	10,311	9,757	9,173
Average milk per cow	Lb.	628	736	696	663	8,513	821	761	722	680
Prices received by farmers:										
All milk, wholesale, 100 pounds	Dol.	4.43	4.72	5.01	5.28	4.81	4.68	4.80	4.98	5.20
Percentage of parity 1/	Pct.	76	87	88	87	84	88	86	86	84
Milkfat in cream, pound	Ct.	62.1	69.1	71.6	73.4	67.0	65.3	65.7	65.8	65.9
Percentage of parity	Pct.	75	80	83	87	79	77	77	77	77
Manufacturing grade milk, 100 pounds	Dol.	3.42	4.04	4.25	4.40	3.97	3.95	3.94	3.99	4.05
Parity equivalent	Dol.	4.35	4.51	4.52	4.55	4.50	4.66	4.69	4.66	4.68
Fat content	Pct.	3.80	3.58	3.65	3.74	3.69	3.60	3.60	3.64	3.73
Minnesota-Wisconsin (3.5% fat test)	Dol.	3.29	4.05	4.26	4.34	3.92	3.96	3.95	3.97	3.97
Milk eligible for fluid market, 100 pounds	Dol.	4.85	5.06	5.36	5.65	5.18	5.06	5.22	5.42	5.67
Price ratios and dairy ration values:										
Milk-feed	Lb.	1.46	1.49	1.56	1.62	1.53	1.44	1.49	1.59	1.67
Manufacturing grade milk-hog	Lb.	.15	.17	.17	.20	.18	.19	.18	.20	.21
Manufacturing grade milk-beef cattle	Lb.	.17	.18	.19	.20	.18	.17	.17	.17	.18
Value of concentrate ration fed milk cows 2/	Dol.	3.02	3.15	3.20	3.24	3.05	3.23	3.21	3.13	3.10
Farm cash receipts from dairy products:										
.....	Mil. dol.	393	464	465	463	5,502	497	474	466	459
Production of factory products:										
Creamery butter	Mil. lb.	73.4	83.1	76.5	68.7	1,112.0	129.5	104.9	86.2	75.3
American cheese, whole milk	Mil. lb.	81.8	113.5	104.2	93.4	1,220.6	137.4	120.6	108.6	90.8
Cheese, other than American	Mil. lb.	46.4	51.3	50.8	48.0	635.0	54.6	51.9	50.8	50.0
Evaporated and condensed, unskimmed, cs. goods...	Mil. lb.	141.7	167.5	172.5	145.6	1,824.7	179.5	159.9	145.2	118.8
Dry whole milk	Mil. lb.	5.8	7.1	7.3	6.8	94.4	7.2	8.2	5.1	4.7
Frozen products 3/	Mil. gal.	93.7	118.0	112.9	92.2	1,040.1	114.1	113.6	115.3	91.5
Creamed cottage cheese	Mil. lb.	67.3	71.4	69.5	66.4	829.7	75.2	72.1	72.5	67.0
Total whole milk equivalent 4/	Mil. lb.	4,027	5,099	4,716	4,101	56,398	6,379	5,599	4,984	4,000
Nonfat dry milk, human use	Mil. lb.	100.3	131.8	112.6	88.5	1,595.1	202.4	157.5	130.1	100.3
Wholesale prices:										
Paid by fluid milk distributors, 100 pounds	Dol.	5.49	5.77	5.99	6.13	5.82	6.16	6.16	6.18	6.28
Butter, 92-score, Chicago, pound	Ct.	62.2	71.2	73.0	74.9	66.6	66.5	66.5	67.1	67.1
Cheese, American Cheddars, f.o.b. Wisconsin										
assembling points, pound	Ct.	37.8	46.9	49.4	49.4	45.9	44.9	44.8	44.9	44.9
Evaporated milk, case	Dol.	6.11	6.78	6.93	7.07	6.73	7.05	7.05	7.05	7.06
Dry whole milk, pound	Ct.	34.5	42.5	42.6	45.0	39.9	38.3	39.0	40.3	39.7
Nonfat dry milk, pound	Ct.	14.8	19.5	20.3	20.6	18.2	19.9	19.9	19.8	19.9
Dairy products and ice cream index (BLS).....1957-59=100:		109.1	120.4	124.0	124.2	118.5	122.2	122.0		
Retail prices (BLS): 5/										
Milk, fresh, delivered, half-gallon	Ct.	52.7	55.4	56.8	57.1	55.5	57.2	57.2	57.5	58.0
Milk, fresh, grocery, half-gallon	Ct.	47.4	49.6	51.1	51.4	49.8	51.5	51.3	51.5	51.9
Evaporated milk, 14½-ounce can	Ct.	15.2	15.9	16.2	16.4	16.0	16.9	16.8	16.8	16.8
Cheese, American, processed, sliced, ½-lb. pkg.	Ct.	37.7	41.8	43.2	44.1	42.2	43.8	43.4	43.3	43.2
Butter, pound	Ct.	75.7	80.9	86.3	88.1	82.2	84.1	82.6	82.6	83.3
Ice cream, half-gallon	Ct.	79.0	79.2	82.9	83.8	80.6	83.1	81.1	80.8	80.7
Dairy products index		105.3	111.0	114.8	116.0	111.8	116.3	116.4	116.6	117.3
All foods index		109.7	114.3	115.8	115.6	114.2	115.1	116.0	116.6	115.9
Margarine, colored, pound	Ct.	27.9	28.5	28.7	29.1	28.7	28.8	28.0	27.9	28.0
Stocks, end of month:										
Creamery butter	Mil. lb.	161.1	92.2	85.9	68.4	---	191.6	228.5	233.2	211.4
Cheese, total, natural	Mil. lb.	386.6	391.3	402.5	398.4	---	442.7	457.1	450.8	438.9
Fluid cream 6/	Mil. lb.	11.7	21.9	20.3	18.6	---	19.9	18.4	18.0	14.8
Evaporated milk	Mil. lb.	228.2	223.4	217.2	245.1	---	228.6	266.8	281.8	292.2
Condensed milk (case and bulk)	Mil. lb.	8.2	8.1	8.9	7.3	---	13.6	16.4	15.1	11.9
Dry whole milk	Mil. lb.	6.0	8.8	8.2	7.9	---	9.4	10.2	8.6	7.4
Total, whole milk equivalent	Mil. lb.	7,789	6,481	6,416	6,042	---	9,106	10,109	10,157	9,543
Nonfat dry milk	Mil. lb.	262.5	143.6	130.8	119.1	---	192.4	256.0	275.9	266.7
Civilian disappearance:										
Creamery butter	Mil. lb.	90.7	74.8	78.8	83.4	1,082	86.1	66.2	79.5	
Cheese, whole milk and part skim	Mil. lb.	157.5	150.8	151.1	153.2	1,891	178.5	160.7	167.5	
Evaporated milk	Mil. lb.	124.9	129.2	138.2	91.2	1,479	108.6	103.3	112.3	
Nonfat dry milk	Mil. lb.	61.3	97.1	94.6	80.5	1,146	108.9	62.5	89.9	
State and Federal marketing areas:										
Daily average sales:										
Whole milk	Mil. lb.	92.9	83.8	84.3	93.0	89.9	83.3	80.0		
Milk and cream mixture	Thou. lb.	1,176	1,134	1,136	1,154	1,167	1,135	1,097		
Fluid cream	Thou. lb.	675	652	656	656	709	683	625		
Skim milk items	Thou. lb.	10,952	11,674	11,651	12,326	11,831	13,376	12,852		
Daily average receipts of milk:										
From producer	Mil. lb.	130.1	132.6	129.2	131.4	142.7	149.7	135.3	130.6	
Per producer	Lb.	897	963	943	949	996	1,154	1,048	1,011	
Number of producers and producer-handlers	Thou.	145	138	137	138	143	130	129	129	

1/ Seasonally adjusted price as percentage of parity price. 2/ Milk and cream selling areas, per 100 pounds. 3/ Ice cream, ice milk, and sherbet. 4/ Includes manufactured products for which current monthly series are available. 5/ Beginning January 1964, BLS revised the consumer price index (CPI) and retail price series. See DS-303, page 31. 6/ Includes plastic on a fluid cream basis.

THE DAIRY SITUATION

Approved by the Outlook and Situation Board, October 27, 1967

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SUMMARY

Milk production in 1968 is likely to total near the 119.5-120 billion pounds in prospect for 1967. January-September 1967 output was 0.2 percent below production for the same period of 1966.

Milk cow numbers in 1967 are averaging about 4 percent below last year, compared with a decline of nearly 6 percent in 1966. Output per cow for 1967 may approximate 8,810 pounds, up about 3½ percent from 1966.

Milk cow numbers may continue to decline in 1968 at about the same rate as

in 1967. A continued firm beef-cattle market and favorable off-farm opportunities will encourage cow culling and sale of dairy herds. Although milk cow numbers are declining, gains in output per cow are expected to maintain 1968 total milk production near the 1967 level. Feed supplies are large, and feed prices will average below those of recent years. The resulting high milk-feed price ratio may lead to increased feeding and help bring about average or better gains in output per cow in 1968.

Prices farmers receive for milk are running slightly below peak levels of a year ago. But for all of 1967, the price of milk

may average about \$5.00 per 100 pounds, compared with \$4.81 in 1966.

Price supports of \$4.00 per 100 pounds for manufacturing milk and 68 cents per pound for butterfat are in effect through March 31, 1968. USDA will announce support levels for the 1968/69 marketing year before April 1.

If current price support and Federal Milk Marketing Order price levels continue next year, prices farmers receive for milk in 1968 are likely to average near those of 1967.

This means cash receipts from dairying likely would change little since 1968 marketings are expected to average near 1967 levels. Cash receipts from farm sales of milk and cream in 1967 will be a record of about \$5.8 billion, up from \$5.5 billion in 1966. This year's increase is due chiefly to higher prices. Farm marketings of milk and cream are changing little from a year earlier.

Commercial disappearance of milk in all products is falling this year about 5 billion pounds milk equivalent (fat solids basis) from the 1966 level of 115 billion. The January-September decline from a year earlier was about 5 percent. However, commercial disappearance in 1968 may resume the upward trend of past years, since population and personal incomes are rising and retail dairy prices are expected to change little from 1967 levels.

Domestic use of milk in 1967--including CCC donations and farm household use of home-produced milk as well as commercial disappearance--is expected to fall about $2\frac{1}{2}$ billion pounds from the 119.4 billion consumed in 1966, half the drop in commercial disappearance. Increased CCC donations of butter, cheese, and nonfat dry milk have partially offset reduced sales and lower farm use of home-produced milk. Donations of government-purchased products for use in welfare and school lunch programs about tripled this year from last year's low levels.

In 1968, prospective increases in sales and larger CCC donations likely will

increase domestic use of milk.

CCC purchases in 1967 are expected to remove over 7 billion pounds milk equivalent from the market, up sharply from the 0.6 billion removed in 1966. CCC purchases likely will amount to about 6 percent of the milkfat and 8 percent of the milk solids-not-fat marketed by farmers.

U. S. exports of dairy products declined sharply in 1967 and likely will continue at low levels next year. This year's dairy product imports, coming mostly in the first half, are expected to be near the 2.8 billion pounds imported in 1966. New quotas, effective July 1, are sharply limiting dairy imports to about 1 billion pounds milk equivalent annually.

Stocks of dairy products are expected to total more than 8 billion pounds milk equivalent at the end of 1967, compared with 4.8 billion pounds in 1966, because of increased government holdings.

SITUATION AND OUTLOOK

PRODUCTION

Milk Production Slightly Under 1966 Levels

September milk production was 9.2 billion pounds, 1 percent below September 1966. Among regions, only the South Atlantic States reported a gain from a year earlier. However, among major producing States, milk production was 3 percent above a year earlier in New York and about the same in Wisconsin and California.

September output per cow was 680 pounds, up 2.6 percent from a year earlier and a record for the month. This compares with an increase of 5.6 percent in September 1966. Gains this September ranged from 5.7 percent in the South Atlantic States to 1.4 percent in the Western Region. Output per cow was a record high for September in 45 States.

January-September milk output totaled 92.2 billion pounds, just under the 92.4 billion of a year earlier. For the 9 months, milk production increased slightly in the

East North Central, South Atlantic, South Central, and Western regions, but was down 3 percent in the North Atlantic region and slightly in the West North Central States. Wisconsin's 3.7 percent output gain brought the East North Central region's 9-month production above a year earlier, but production in other East North Central States was down (table 1).

After the first quarter of 1967, U. S. milk production in each quarter remained just under year earlier levels. For the 4th quarter, the gap may widen slightly with smaller year-to-year gains in output per cow.

1968 Milk Output May Change Little

U. S. milk production in 1968 may total close to the 119.5-120 billion pounds expected for 1967, the lowest since 1952. Average gains in output per cow are expected to approximate the $3\frac{1}{2}$ percent increase likely in 1967. But milk cow numbers will continue downward probably at the 3-4 percent rate of 1967 and offset productivity gains. Although the cow number decline is about two-thirds that of 1966, it exceeds the 2.2 percent downtrend since 1950 and the 3.3 percent average annual decline since 1960. If the livestock market strengthens, farmers may cull in 1968 at a rate heavier than the 1960-66 average. Improved dairy prices in 1966 and 1967 have lifted gross cash receipts from dairying to record levels and may slow the decline in number of milk herds from high rates of recent years (table 2).

Since 1960, milk output per cow has gained an average of $3\frac{1}{2}$ percent per year. This uptrend is expected to continue in 1968 near the average rate, particularly in view of this year's large feed supplies and lower feed prices, which should encourage heavy grain and concentrate feeding.

Milk production per cow for 1967 is expected to average about 8,810 pounds, up about $3\frac{1}{2}$ percent from 1966, about the same as the average annual gain since 1960. The indicated increase is well above the 209 pound gain from 1965 to 1966. Output per cow for the first 9 months of 1967 was 4 percent above a year earlier but only 2.6 percent higher in September.

Milk production levelled in 1967 after declining close to 7 billion pounds between 1964 to 1966. Steady milk production in 1967 was associated with sharp advances in milk prices from a year earlier beginning in mid-1966 through the first half of 1967. The rise brought dairy prices into a more favorable relationship compared with alternative enterprises than they had been for some time. The end of the 5-year drought in the Northeastern States and the improved 1966/67 fall-winter feed situation in North Central States also helped to stabilize milk production this year. However, throughout 1967, prices for cull dairy cows remained at comparatively high levels. The manufacturing milk-beef cattle price ratio was higher in early 1967 than a year earlier, but turned downward in mid-year. In coming months, it may stay lower than the same period a year earlier, because beef-cattle prices are expected to strengthen in 1968 and milk prices may stay near 1967 levels. In September, the manufacturing milk-beef price ratio was 10 percent under a year earlier. These price relationships suggest the likelihood of a continued high rate of herd culling in 1968. The number of replacement heifers available for 1968 appears too small to bring about a slowdown from the 1967 rate of decline in cow numbers.

Prices for canner and cutter cows in Chicago averaged about 3 percent below year earlier levels during January-September. However, the expected firm beef market indicates that prices for slaughter cows in 1968 may be somewhat above 1967 levels.

The number of farmers keeping milk cows will continue to decline in 1968. The rate of decline will depend in part on opportunities for off-farm employment and income opportunities in farm enterprises alternative to dairying. Moreover, relatively large capital requirements for beginning dairy farmers and high labor costs are contributing to the decline in dairy herds.

Feed Prices Lower

Larger supplies of feed grains, together with ample supplies of soybean meal, indicate that feed prices will be lower in

Table 1.--Production of milk on farms, United States, 1966 and January-September 1966 and 1967 ^{1/}

State	1966	January-September		January-September 1967 compared with 1966	
		1966	1967	Actual change	Percentage change
	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Pct.
Maine	638	493	467	-26	-5.3
New Hampshire	382	292	286	-6	-2.1
Vermont	1,967	1,513	1,464	-49	-3.2
Massachusetts	756	576	560	-16	-2.8
Rhode Island	95	73.1	66.5	-6.6	-9.0
Connecticut	706	534	523	-11	-2.1
New York	10,580	8,146	7,939	-207	-2.5
New Jersey	999	766	710	-56	-7.3
Pennsylvania	7,087	5,421	5,319	-102	-1.9
Ohio	4,937	3,784	3,693	-91	-2.4
Indiana	2,769	2,132	2,048	-84	-3.9
Illinois	3,587	2,793	2,688	-105	-3.8
Michigan	5,179	3,959	3,732	-227	-5.7
Wisconsin	18,199	13,988	14,512	+524	+3.7
Minnesota	10,028	7,874	7,958	+84	+1.2
Iowa	5,624	4,364	4,378	+14	+3
Missouri	3,123	2,434	2,380	-54	-2.2
North Dakota	1,335	1,079	1,014	-65	-6.0
South Dakota	1,527	1,209	1,202	-7	-.6
Nebraska	1,723	1,338	1,240	-98	-7.3
Kansas	1,703	1,289	1,297	+8	+6
Delaware	149	113.0	109.3	-3.7	-3.3
Maryland	1,544	1,165	1,163	-2	-.2
Virginia	1,795	1,361	1,380	+19	+1.4
West Virginia	476	363	363	0	0
North Carolina	1,497	1,121	1,148	+27	+2.4
South Carolina	513	387	395	+8	+2.1
Georgia	1,000	744	775	+31	+4.2
Florida	1,441	1,077	1,160	+83	+7.7
Kentucky	2,590	2,025	1,998	-27	-1.3
Tennessee	2,163	1,664	1,658	-6	-.4
Alabama	834	622	625	+3	+5
Mississippi	1,106	843	847	+4	+5
Arkansas	704	546	538	-8	-1.5
Louisiana	1,011	747	775	+28	+3.7
Oklahoma	1,300	990	995	+5	+5
Texas	3,007	2,285	2,346	+61	+2.7
Montana	360	281	269	-12	-4.3
Idaho	1,432	1,102	1,110	+8	+7
Wyoming	167	129.5	123.2	-6.3	-4.9
Colorado	821	621	636	+15	+2.4
New Mexico	294	220	233	+13	+5.9
Arizona	539	405	406	+1	+2
Utah	736	560	568	+8	+1.4
Nevada	134	102.2	101.8	-.4	-.4
Washington	1,956	1,492	1,503	+11	+7
Oregon	978	764	773	+9	+1.2
California	8,569	6,466	6,610	+144	+2.2
Alaska	19.0	14.5	14.1	-.4	-3.0
Hawaii	151	115.2	110.8	-4.4	-3.8
United States	120,230	92,374	92,210	-164	-.2

^{1/} Preliminary.

Table 2.--Milk production and factors affecting supply, United States, 1950-67 ^{1/}

Year	Milk cattle on farms January 1			Milk cows on farms, average during year	Milk prod- uction per cow	Total milk prod- uction	Prices received by farmers, 1957-59=100	
	Cows and heifers 2 years old and over	Heifers 1-2 years	Heifers calves under 1 year				Dairy products	All farm products
	Thou.	Thou.	Thou.	Thou.	Lb.	Mil. lb.		
1950	23,853	5,394	6,208	21,994	5,314	116,602	97	107
1951	23,568	5,493	6,337	21,505	5,333	114,681	112	125
1952	23,060	5,694	6,481	21,338	5,374	114,671	118	119
1953	23,549	5,893	6,479	21,691	5,542	120,221	104	105
1954	23,896	5,873	6,392	21,581	5,657	122,094	96	102
1955	23,462	5,786	6,094	21,044	5,842	122,945	96	96
1956	22,912	5,407	5,890	20,501	6,090	124,860	99	95
1957	22,325	5,267	5,699	19,774	6,303	124,628	101	97
1958	21,265	5,126	5,571	18,711	6,585	123,220	99	104
1959	20,132	5,050	5,526	17,901	6,815	121,989	100	100
1960	19,527	5,079	5,575	17,515	7,029	123,109	101	99
1961	19,271	5,016	5,446	17,243	7,290	125,707	101	99
1962	18,963	4,887	5,264	16,842	7,496	126,251	99	101
1963	18,379	4,708	4,935	16,260	7,700	125,202	99	100
1964	17,647	4,395	4,692	15,677	8,099	126,967	100	98
1965	16,981	4,149	4,420	14,954	8,304	124,173	102	103
1966 ^{2/}	15,987	3,860	4,151	14,123	8,513	120,230	114	110
1967 ^{3/}	15,201	3,619	4,059	13,600	8,810	119,800	118	104
	Average prices received by farmers					Parity prices ^{4/}		
	All milk whole- sale, per cwt.	Milk eligible for fluid market, per cwt.	Milk of manufactur- ing grade, per cwt.	Milkfat in cream, per lb.	Milk retail, per qt.	All milk whole- sale, per cwt.	Milkfat in cream, per lb.	Equivalent for manufacturing milk, per cwt.
	Dol.	Dol.	Dol.	Ct.	Ct.	Dol.	Ct.	Dol.
1950	3.89	4.36	3.16	62.0	18.5	4.32	69.2	3.82
1951	4.58	5.02	3.85	71.2	19.9	4.76	76.2	4.21
1952	4.85	5.31	4.06	75.0	20.8	4.84	76.9	4.28
1953	4.32	4.82	3.48	66.5	20.8	4.72	75.0	4.18
1954	3.97	4.45	3.14	58.7	20.6	4.75	75.0	4.20
1955	4.01	4.50	3.15	57.8	20.7	4.71	74.1	3.94
1956	4.14	4.64	3.25	59.4	21.0	4.62	72.2	3.85
1957	4.21	4.75	3.27	60.6	21.3	4.81	73.8	3.95
1958	4.13	4.66	3.15	59.3	21.3	5.02	75.4	4.08
1959	4.16	4.67	3.17	60.1	21.5	4.95	73.6	3.97
1960	4.21	4.69	3.25	60.5	21.7	5.01	74.1	4.01
1961	4.22	4.65	3.36	61.5	21.7	5.13	74.9	4.09
1962	4.09	4.54	3.20	59.4	21.9	5.25	76.2	4.15
1963	4.10	4.53	3.21	59.5	22.2	5.33	77.2	4.18
1964	4.15	4.58	3.26	60.2	22.3	5.38	77.3	4.20
1965	4.23	4.63	3.34	61.1	22.3	5.53	79.2	4.31
1966 ^{2/}	4.81	5.18	3.97	67.0	23.2	5.73	82.1	4.47
1967 ^{3/}	5.00	5.40	4.10	66.0	24.0	5.88	84.0	4.62

^{1/} Includes available data for Alaska and Hawaii beginning 1960.^{2/} Preliminary.^{3/} Estimated.^{4/} At beginning of marketing year.

1967/68 than a year earlier, especially during fall and winter. The value of concentrate rations fed to milk cows has been below a year earlier since August, after averaging 6 percent higher during January-July 1967. In October, the value of dairy rations averaged about 5 percent below October 1966 (table 3).

The total supply of all feed concentrates for 1967/68 (October 1-September 30 feeding year) is estimated at 249 million tons, based on October indications. This is 6 percent above a year earlier and a little above the 1961-65 average. Feed grain production, at a record 176 million tons, more than offset a 5 million ton decrease in carryover. October feed grain prices were 15 percent below a year earlier and probably will continue below a year earlier during this fall and winter.

The record soybean crop in prospect for this year will provide larger supplies of soybean meal in 1967/68. Prices for soybean meal at Decatur in October averaged about \$10 a ton below October 1966. The larger supply of soybean meal is expected to result in moderately lower meal prices through the first half of the 1967/68 feeding year.

The milk-feed price ratio has been at record levels during January-October 1967. Even with milk prices running below a year earlier, the milk-feed price ratio in November-December is expected to continue at record levels, because of lower feed prices. In October, the milk-feed price ratio averaged 4 percent above October 1966. For all of 1967, this price ratio also likely will average some 3 percent above 1966. In 1968, milk-feed price ratios are expected to continue relatively high.

Based on October 1 crop prospects, hay production for 1967 is estimated at 125 million tons, 3 percent above last year and 4 percent above average. However, the quality of first cutting hay was below normal in many of the northern dairy areas, due to poor drying weather this summer. New York crop reporters indicated that the quality of hay harvested in 1967 was 74 percent of normal, compared with the 88 percent average for 1962-66. Apparently, conditions were improved for second and third hay cuttings,

and corn silage appears to be of adequate quality. Nationally, farmers paid \$32.60 per ton for baled alfalfa hay in October--a decrease of \$1.40 per ton below October 1966. Prices of other types of hay also were down from a year earlier.

Grain and other concentrates fed milk cows averaged 9 pounds per head on October 1 in herds kept by reporters. This was an increase of 3 percent from a year earlier, and 25 percent above the 1961-65 average for that date.

PRICES AND INCOME

Milk Prices Exceed 1948 Peak

Prices farmers receive for milk sold to plants and dealers in 1967 are expected to average about \$5.00 per 100 pounds, compared with \$4.81 in 1966. The previous high was \$4.88 in 1948 (table 2). For January-October 1967, the price of wholesale milk averaged \$4.96 per 100 pounds, 23 cents or 5 percent above a year earlier. After gaining 8 percent during the first 7 months of this year, milk prices dipped below year earlier levels in August-October. The October price of all wholesale milk was \$5.31 per 100 pounds, 8 cents below last October (table 4). Lower prices for manufacturing grade milk and reduced use of milk for bottling have lowered the average price of milk slightly from year earlier levels since August.

Higher price support levels sustained first half milk prices above year earlier levels. The tight supply-demand situation for milk in 1966, which caused farm prices to rise sharply above support levels, moderated in 1967, as reduced commercial takings and higher first half imports resulted in substantial market removals of dairy products by USDA.

Fourth quarter prices farmers receive are advancing about 5 percent from third quarter prices, less than the usual 9 percent. This year the elimination of seasonal Class I price differentials in Federal order markets has lessened the seasonal movement of prices. However, other major causes of seasonal price increases in fall months, which continued to operate, are

Table 3.--Dairy: Feed costs, milk cow and other livestock prices, milk-livestock price ratios, and feed consumed, United States, 1950-67

Year	Dairy ration cost		Milk cow cost		Livestock prices and milk-livestock price ratios				
	Value	Milk-	Price	Milk	Beef-	Manu-	Hog	Manu-	
	per 100 pounds	feed price ratio	received per head	required to buy a cow	cattle price per 100 pounds	fac-turing milk-beef	price per 100 pounds	fac-turing milk-hog	
	Dol.	Lb.	Dol.	Cwt.	Dol.	Lb.	Dol.	Lb.	
1950	3.08	1.24	198	51	23.30	0.14	18.00	0.18	
1951	3.52	1.29	247	54	28.70	.13	20.00	.19	
1952	3.75	1.28	243	50	24.30	.17	17.80	.22	
1953	3.43	1.25	177	41	16.30	.21	21.40	.16	
1954	3.30	1.19	149	38	16.00	.20	21.60	.15	
1955	3.10	1.28	146	36	15.60	.20	15.00	.21	
1956	3.00	1.36	153	37	14.90	.22	14.40	.23	
1957	3.00	1.39	166	39	17.20	.19	17.80	.18	
1958	2.89	1.41	209	51	21.90	.15	19.60	.16	
1959	2.89	1.43	233	56	22.60	.14	14.10	.23	
1960	2.88	1.45	223	53	20.40	.16	15.30	.21	
1961	2.89	1.45	224	53	20.20	.17	16.60	.20	
1962	2.92	1.40	221	54	21.30	.15	16.30	.20	
1963	3.01	1.36	215	52	19.90	.16	14.90	.22	
1964	3.01	1.38	209	50	18.00	.18	14.80	.22	
1965	3.02	1.40	212	50	19.90	.17	20.60	.17	
1966 1/	3.14	1.53	246	51	22.20	.18	22.80	.18	
1967 2/	3.20	1.54	260	52	22.33	.18	19.41	.21	
<hr/>									
Grain and other concentrates fed to milk cows			Dairy pastures, feed condition		Alfalfa, hay prices		Quantity fed per cow, winter feeding period ending in May 3/		
Total fed		Per cow	Per 100 pounds of milk produced 4/	for season, as percent of normal	Received by farmers per ton	Paid by farmers per ton	Hay	Silage	Total hay equivalent
Thou. tons		Lb.	Lb.	Pct.	Dol.	Dol.	Tons	Tons	Tons
1950	18,516	1,629	30.6	83	23.10	30.90	2.2	1.7	2.9
1951	17,418	1,605	29.9	86	25.50	34.10	2.2	1.6	2.9
1952	17,527	1,628	30.3	80	26.30	37.70	2.3	1.8	2.9
1953	18,519	1,676	30.7	75	22.70	35.50	2.2	1.9	2.9
1954	18,721	1,659	30.0	75	23.00	34.40	2.2	2.1	2.9
1955	18,664	1,758	30.1	76	22.00	33.70	2.2	2.2	3.0
1956	19,098	1,825	30.2	75	21.90	32.50	2.3	2.4	3.1
1957	19,946	1,945	31.2	83	18.60	31.50	2.2	2.3	3.0
1958	19,809	2,003	31.4	86	18.60	29.50	2.4	2.5	3.2
1959	19,803	2,050	31.6	81	21.70	29.80	2.3	2.5	3.2
1960	19,821	2,259	32.2	84	21.00	31.60	2.5	2.7	3.4
1961	20,916	2,404	33.2	83	21.00	30.90	2.5	2.6	3.4
1962	21,617	2,533	34.3	80	21.40	30.60	2.5	2.8	3.4
1963	21,858	2,646	35.1	76	23.50	32.90	2.4	2.8	3.4
1964	22,464	2,800	35.9	75	24.00	32.60	2.4	3.1	3.5
1965	22,827	2,953	36.7	79	24.00	33.00	2.4	3.2	3.5
1966 1/	22,569	3,200	37.8	78	24.00	33.40	2.3	3.3	3.4
1967 2/	22,780	3,350	38.7	78	24.29	34.08	1/2.4	1/3.5	1/3.5

1/ Preliminary. 2/ Ten-month simple average. 3/ In herds kept by dairy reporters. 4/ On farms where milk or cream was sold. 5/ Estimated.

Table 4.--Milk, wholesale all: Average price received by farmers
per 100 pounds, by regions, 1950-67

Year and month	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific	United States 1/
	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.
1950	4.98	4.21	3.40	3.38	5.09	4.02	4.89	3.78	4.05	3.89
1955	5.14	4.32	3.49	3.41	5.28	4.11	5.16	4.08	4.19	4.01
1956	5.17	4.42	3.69	3.47	5.35	4.21	5.26	4.21	4.41	4.14
1957	5.44	4.76	3.69	3.46	5.44	4.19	5.18	4.25	4.50	4.21
1958	5.27	4.74	3.57	3.36	5.50	4.22	5.14	4.18	4.39	4.13
1959	5.46	4.77	3.60	3.38	5.47	4.30	5.02	4.15	4.46	4.16
1960	5.39	4.65	3.77	3.42	5.48	4.38	5.04	4.13	4.44	4.21
1961	5.16	4.56	3.84	3.53	5.41	4.34	5.00	4.20	4.45	4.22
1962	5.10	4.45	3.68	3.40	5.37	4.25	4.81	4.14	4.39	4.09
1963	5.13	4.45	3.68	3.39	5.40	4.32	4.95	4.18	4.35	4.10
1964	5.17	4.52	3.73	3.44	5.48	4.42	5.03	4.23	4.43	4.15
1965	5.15	4.57	3.83	3.53	5.53	4.47	5.02	4.28	4.48	4.23
1966 2/	5.73	5.07	4.53	4.11	5.94	5.11	5.73	4.83	4.77	4.81
1966 2/ January	5.61	4.89	4.17	3.76	5.85	5.11	5.54	4.68	4.76	4.58
February	5.63	4.90	4.26	3.79	5.91	5.11	5.59	4.67	4.70	4.60
March	5.60	4.83	4.28	3.81	5.79	4.95	5.48	4.64	4.60	4.57
April	5.27	4.68	4.20	3.81	5.66	4.69	5.27	4.54	4.48	4.46
May	4.96	4.49	4.14	3.80	5.48	4.55	5.21	4.40	4.41	4.36
June	4.95	4.51	4.16	3.83	5.47	4.54	5.21	4.38	4.46	4.37
July	5.67	5.03	4.44	4.18	5.73	4.79	5.67	4.65	4.63	4.72
August	5.86	5.35	4.78	4.41	5.92	5.04	5.85	4.90	4.86	5.01
September	6.28	5.56	5.02	4.63	6.24	5.46	6.18	5.21	5.06	5.28
October	6.51	5.73	5.09	4.64	6.39	5.73	6.35	5.35	5.08	5.39
November	6.51	5.72	5.08	4.59	6.44	5.82	6.34	5.34	5.12	5.37
December	6.33	5.54	4.98	4.51	6.46	5.80	6.26	5.32	5.18	5.28
1967 2/ January	6.02	5.46	4.86	4.40	6.42	5.62	6.21	5.31	5.14	5.15
February	5.96	5.36	4.78	4.34	6.39	5.48	6.12	5.18	5.00	5.06
March	5.75	5.25	4.70	4.27	6.24	5.26	5.72	4.98	4.91	4.95
April	5.39	4.97	4.56	4.16	5.97	4.89	5.53	4.86	4.79	4.77
May	5.35	4.87	4.55	4.16	5.99	4.87	5.56	4.82	4.72	4.74
June	5.23	4.86	4.44	4.11	5.93	4.84	5.51	4.73	4.76	4.68
July	5.71	5.30	4.50	4.12	5.93	4.84	5.56	4.76	4.74	4.80
August	6.16	5.64	4.63	4.19	6.00	5.04	5.68	4.89	4.80	4.98
September	6.34	5.82	4.87	4.35	6.22	5.38	6.14	5.06	4.88	5.20
October	6.37	5.86	4.95	4.44	6.39	5.67	6.29	5.21	5.00	5.31

1/ Includes Alaska and Hawaii beginning 1961. 2/ Preliminary.

the increased proportion of milk supplies going into the higher-valued bottling uses and the seasonally higher milkfat content.

For 1967, manufacturing grade milk prices likely will average about \$4.10 per 100 pounds, up from \$3.97 in 1966. Adjusted to the 3.7 percent average annual milkfat test, manufacturing grade milk prices have been near the \$4.00 support price since last spring. The adjusted price for October was \$4.04 per 100 pounds. Excess supplies of milk in 1968 are likely to continue to hold manufacturing grade prices near the support level.

Class I prices this year likely will be up around 5 percent from 1966; prices for milk eligible for fluid use probably will gain somewhat less.

Milkfat prices farmers receive may average lower than the 67.0 cents in 1966, because butter has been in excess supply during 1967.

1968 Prospects: Little Change

In 1968, prices farmers receive for milk and butterfat likely will average near the 1967 level, if the dairy support and Federal order programs continue about as they are now. Even with reduced dairy imports next year, prospective supplies appear more than adequate to meet the commercial market's requirements for milk and dairy products. Therefore, USDA likely will remove substantial amounts of dairy products from the market under the price support program in the first half of 1968. Consequently, manufacturing grade milk prices are expected to continue near the support level during that time.

In prospect are rises in the parity index and in the 10-year moving average of manufacturing grade milk prices now used to calculate dairy support levels. These changes may increase the legal maximum support level (90 percent of parity) for manufacturing milk, by about 20 cents above the current maximum of \$4.16 per 100 pounds for the 1967/68 marketing year. USDA will announce actual support levels for the 1968/69 marketing year before April 1, 1968.

Cash Receipts Rising

Cash receipts from farm marketings of milk and cream are expected to approximate \$5.8 billion in 1967, up about 5 percent from last year's record \$5.5 billion level (table 5). Farm production expenses also are expected to be higher this year than last, and net incomes of dairy producers may be little above those of 1966.

For January-September, 1967, cash receipts from dairy marketings totaled \$4.4 billion, about 7 percent above the same months of 1966. The increase was due chiefly to a 6 percent average increase in prices received by farmers, as milk marketings for this period were close to those of a year earlier. Cash receipts during October-December of this year are projected below a year earlier, due to lower prices for milk.

Dairy farmers probably will market about 114.8 billion pounds of milk this year, about the same as in 1966 (table 5). Marketings are being maintained this year, even with slightly lower production, because of the continued decline in milk used on farms where produced. Whole milk marketings this year may increase by almost 1 billion pounds, while marketings of farm separated cream and milk retailed by farmers continue to decline.

Average returns per 100 pounds of milk marketed in all forms likely will be slightly above \$5.00, compared with last year's \$4.81. The slight rise in marketings and little change in milk prices in prospect for 1968 point to cash receipts from dairying around this year's level, if programs continue about as they are now and average crop and pasture conditions prevail.

Wholesale Dairy Product Prices Near Support Level

Wholesale prices of dairy products have been at or near the support purchase prices during most of this year. Wholesale butter prices moved above the support purchase level in late August, and reached 67.5 cents per pound (Grade A at Chicago) in early October, but since then declined to 66.4 cents, about the support purchase

Table 5.--Milk marketings by farmers, income and utilization,
United States, 1950-67 ^{1/}

Year	Used on farms where produced	Milk marketed by farmers				Cash receipts from milk marketed by farmers			
		Sold to plants and dealers		Retailed by farmers as milk and cream	Total	Milk sold to plants and dealers	Cream sold to plants and dealers	Retailed by farmers	Total
		As whole milk	As farm separated cream						
		Bil. lb.	Bil. lb.	Bil. lb.	Bil. lb.	Bil. lb.	Bil. dol.	Bil. dol.	Bil. dol.
1950	18.3	74.2	20.2	3.9	98.3	2.9	0.5	0.3	3.7
1951	17.9	74.5	18.5	3.7	96.7	3.4	.5	.3	4.3
1952	17.0	77.3	16.9	3.5	97.7	3.8	.5	.3	4.6
1953	16.1	84.6	16.3	3.2	104.1	3.7	.4	.3	4.4
1954	15.4	87.9	15.9	2.9	106.7	3.5	.3	.3	4.1
1955	14.6	91.0	14.7	2.7	108.3	3.6	.3	.3	4.2
1956	13.6	95.5	13.3	2.4	111.2	4.0	.3	.2	4.5
1957	12.4	98.3	11.7	2.3	112.2	4.1	.3	.2	4.6
1958	11.1	99.6	10.3	2.2	112.1	4.1	.2	.2	4.6
1959	10.0	100.8	9.1	2.1	112.0	4.2	.2	.2	4.6
1960	9.2	103.9	7.9	2.1	114.0	4.4	.2	.2	4.8
1961	8.4	108.4	6.9	2.1	117.3	4.6	.2	.2	4.9
1962	7.7	110.7	5.9	2.0	118.6	4.5	.1	.2	4.9
1963	7.1	111.2	5.1	1.9	118.1	4.6	.1	.2	4.9
1964	6.5	114.2	4.4	1.9	120.5	4.7	.1	.2	5.0
1965	6.0	112.7	3.6	1.8	118.2	4.8	.1	.2	5.0
1966 ^{2/}	5.5	110.0	3.0	1.7	114.7	5.3	.1	.2	5.5
1967 ^{3/}	5.0	110.8	2.2	1.7	114.8	5.5	.1	.2	5.8
Utilization of milk supply ^{4/}									
			Cheese						
	Fluid	Creamery butter, net	American	Other	Evapo- rated, condensed, and dry whole milk	Frozen dairy products, net	Other factory products	Total factory products	Miscel- laneous ^{5/}
	Bil. lb.	Bil. lb.	Bil. lb.	Bil. lb.	Bil. lb.	Bil. lb.	Bil. lb.	Bil. lb.	Bil. lb.
1950	42.4	27.8	9.0	2.9	7.9	6.9	0.7	55.2	0.7
1951	43.9	24.1	8.8	2.8	8.0	7.0	.9	51.6	1.4
1952	45.1	23.8	8.6	3.1	7.6	7.5	1.0	51.6	1.1
1953	45.9	28.5	10.2	3.1	7.0	7.8	1.0	57.6	.4
1954	47.5	29.3	10.5	3.3	6.8	7.7	1.1	58.7	.5
1955	49.1	28.0	10.1	3.5	7.1	8.2	1.2	58.0	1.2
1956	50.7	28.7	9.9	3.8	7.2	8.5	1.3	59.4	1.1
1957	51.8	29.0	10.0	3.5	7.0	8.6	1.2	59.2	1.3
1958	52.1	29.7	9.5	3.2	6.3	8.8	1.3	58.9	1.1
1959	52.4	28.7	9.2	3.4	6.4	9.4	1.4	58.4	1.2
1960	53.0	29.4	9.7	3.7	6.2	9.5	1.4	59.8	1.2
1961	52.6	31.8	11.2	3.7	6.0	9.6	1.3	63.6	1.2
1962	53.3	33.1	10.7	3.7	5.7	9.7	1.4	64.1	1.2
1963	54.3	30.7	10.9	3.9	5.6	9.9	1.5	62.7	1.3
1964	54.9	31.3	11.5	4.2	5.7	10.3	1.7	64.5	1.1
1965	55.4	28.5	11.5	4.3	5.3	10.6	1.6	61.8	1.2
1966 ^{2/}	55.6	23.7	12.2	4.5	5.3	10.5	1.6	57.9	2.6
1967 ^{3/}	54.5	26.4	12.7	4.4	4.8	10.5	1.6	60.5	1.3

^{1/} Includes available data for Alaska and Hawaii beginning 1960, totals may not add due to rounding.^{2/} Preliminary. ^{3/} Estimated. ^{4/} Total supply includes milk marketed by farmers, net imports of ingredients such as frozen cream and butterfat-sugar mixtures, and net change in storage cream. ^{5/} Residual, including miscellaneous minor uses and any inaccuracies of independently determined use items.

price. American cheese prices (Cheddars at Wisconsin Assembly points) were steady from March through October 26 at about 44.9 cents per pound.

Nonfat dry milk prices averaged 19.8 cents per pound in September, near the 19.6 cent support purchase price.

Prospective supplies of most dairy products in 1968 appear ample to meet commercial demand, even with reduced dairy imports. Therefore, the wholesale prices of butter, cheese, and nonfat dry milk likely will continue near the support purchase prices during the first half of 1968.

Retail Dairy Price Increases Slacken

This year's gain in retail dairy prices from a year earlier has slowed steadily as the year progressed. Compared with a year earlier, prices were up 8 percent in the first quarter and $2\frac{1}{2}$ percent in the third quarter of 1967.

The September retail price index for dairy products was 117.3 (1957-59=100), about 1.1 percent above last September, compared with the 10 percent September 1965 to 1966 increase. The retail price index of all foods in September was 115.9 about the same as a year earlier. For all of 1967, the retail dairy product price index will likely average about 4 percent above the 1966 level, compared with last year's $6\frac{1}{2}$ percent gain from 1965. Year to year increases in retail dairy prices in the last half of 1966 and the first half of 1967 were the largest gains since the Korean conflict (table 6).

For 1968, retail prices of dairy products likely will change little from those of 1967, if there is no significant change in the dairy support and Federal Order programs.

Charges for marketing dairy products are averaging about 4 percent above 1966, as measured by the spread between retail costs and farm value of the farm food "market basket". Farmers received an average of about 47 cents of every dollar consumers spent for dairy products in the first 9 months of 1967, about the

same as a year earlier.

UTILIZATION

Utilization of Milk in Various Products

In 1967, the market supply of milk available for processing and manufacture is expected to remain about the same as the 116.1 billion pounds in 1966. The market supply includes milk marketed by farmers, net imports of ingredients such as frozen cream and butterfat-sugar mixtures, and the net change in storage cream. Market supplies will likely decline slightly in 1968 due to reduced imports of butterfat-sugar mixtures.

An estimated 47 percent of milk marketed by farmers in 1967 will be used in fluid milk products. Fluid utilization is down from 1966 due to a drop in fluid milk product sales and little change in farm marketings of milk and cream.

This year all manufactured dairy products are expected to use the equivalent of 60.5 billion pounds of milk, compared with 57.9 billion pounds in 1966 (table 5).

Butter and American cheese are both using more milk in 1967, but the production of other types of cheese, evaporated milk, condensed milk, and dry whole milk are expected to be down this year. Paralleling the increase in butter production, 1967 nonfat dry milk output likely will be up from 1966.

Ice cream and other frozen desserts may use about $10\frac{1}{2}$ billion pounds of milk in 1967, about the same as in 1966. Approximately 15 percent of the milk used in processing ice cream and other frozen desserts is expected to come from imports of butterfat-sugar mixtures in 1967. With imports of butterfat-sugar mixtures reduced by the recent quota action, a larger portion of 1968 milk marketings by farmers will be used in frozen desserts than in 1966 and 1967.

In 1968, about the same proportion of milk marketings will likely move into fluid uses as in 1967. Manufactured dairy products may use a smaller quantity of milk

Table 6 .--Factors influencing and indicative of the demand for milk and dairy products, United States, 1950-67 1/

Year	Total population July 1 (including Armed Forces overseas)	Total civilian employment	BLS consumer price index 1957-59=100	Per capita disposable income		Civilian per capita disappearance			
				Actual	Deflated by consumer price index	Milk equivalent		Milk solids	
						Fat solids basis	Calcium content basis	Milk fat	Solids-not-fat
	Million	Million		Dollars	Dollars	Pounds	Pounds	Pounds	Pounds
1950	151.7	58.9	83.8	1,364	1,628	740	507	29.3	43.6
1951	154.3	60.0	90.5	1,468	1,622	712	507	28.1	43.5
1952	157.0	60.3	92.5	1,518	1,641	698	520	27.2	44.1
1953	159.6	61.2	93.2	1,582	1,697	689	510	26.7	43.5
1954	162.4	60.1	93.6	1,585	1,693	697	514	27.0	43.8
1955	165.3	62.2	93.3	1,666	1,786	706	525	27.2	44.5
1956	168.2	63.8	94.7	1,743	1,841	702	525	26.9	44.6
1957	171.3	64.1	98.0	1,801	1,838	687	518	26.1	44.3
1958	174.1	63.0	100.7	1,831	1,818	682	514	25.7	43.7
1959	177.1	64.6	101.5	1,905	1,877	667	514	25.1	43.7
1960	180.7	65.8	103.1	1,937	1,879	653	512	24.5	43.2
1961	183.8	65.7	104.2	1,983	1,903	641	505	24.0	42.6
1962	186.7	66.7	105.4	2,064	1,958	641	505	23.9	42.4
1963	189.4	67.8	106.7	2,136	2,002	631	505	23.4	41.6
1964	192.1	69.3	108.1	2,281	2,110	631	512	23.3	41.5
1965	194.6	71.1	109.9	2,426	2,207	618	510	22.9	41.2
1966	196.9	72.9	113.1	2,584	2,285	604	507	22.2	40.7
1967 2/	199.1	74.3	116.1	2,732	2,353	584	503	21.5	39.8
Average retail prices, BLS index, 1957-59=100									
	All foods	Dairy products	Fluid milk, grocery	Butter	Cheese, American, process	Ice cream	Evaporated milk	Margarine, colored	Per capita margarine consumption
									Pounds
1950	85.8	84.7	81.8	96.7	88.6	---	84.4	104.8	6.1
1951	95.4	94.5	90.7	108.5	100.9	101.1	96.1	117.4	6.6
1952	97.1	98.5	95.2	113.3	103.7	101.8	99.5	99.9	7.9
1953	95.6	96.8	94.1	105.3	103.4	101.0	97.4	100.4	8.1
1954	95.4	93.7	92.1	96.5	98.7	99.2	92.5	101.3	8.5
1955	94.0	93.6	92.3	94.5	98.7	97.5	91.1	98.2	8.2
1956	94.7	96.0	95.1	96.7	99.1	97.3	94.0	99.0	8.2
1957	97.8	98.8	98.4	99.6	99.9	99.3	97.5	102.7	8.6
1958	101.9	100.3	100.3	99.5	100.1	100.2	100.9	100.8	9.0
1959	100.3	101.0	101.3	101.0	100.0	100.4	101.6	96.3	9.2
1960	101.4	103.2	103.7	100.5	103.9	99.7	105.3	92.9	9.4
1961	102.6	104.7	104.0	102.6	110.4	99.5	106.1	99.0	9.4
1962	103.6	104.1	103.5	101.1	109.8	98.8	104.2	98.4	9.3
1963	105.1	103.8	103.0	101.0	110.4	98.1	103.1	95.4	9.6
1964	106.4	104.7	103.3	102.0	113.4	96.2	102.9	95.4	9.7
1965	108.8	105.0	102.8	103.6	116.6	94.4	105.3	101.9	9.9
1966	114.2	111.8	109.4	112.8	130.6	96.6	110.6	104.5	10.5
1967 3/	114.9	116.3	113.1	115.7	136.4	99.2	117.4	105.1	4/10.8

1/ Includes available data for Alaska and Hawaii, beginning 1960. 2/ Estimated, as of late October.

3/ Nine-month average. 4/ Estimated annual average.

than this year, but with smaller imports of butterfat-sugar mixtures, most will come from domestically produced milk.

Domestic Dairy Product Sales May Recover in 1968

In 1968, rising population and consumer incomes, and retail dairy prices near 1967 levels, point to some increases in milk and dairy product sales from 1967 low levels. However, the level of dairy prices has encouraged the use of lower-cost substitutes for dairy products. Examples are coffee whiteners, imitation milk, mellorine, and margarine.

In 1967, domestic sales of milk in all dairy products combined are expected to fall some 5 billion pounds milk equivalent from the 115 billion in 1966. This compares with the gain of about 1.2 billion pounds in 1966, and annual average gains of about 1 percent since 1961. In the first 9 months this year, commercial disappearance was down 5 percent from a year earlier (table 7). The rate of decline may slacken in the last quarter, because most wholesale and retail dairy prices probably will be about the same as year-earlier levels, after being sharply higher from mid-1966 to mid-1967.

The 1967 decrease in sales volume has been most marked for fluid whole milk, butter, nonfat dry milk, canned milk, and cream.

For the first 7 months of 1967, fluid whole milk sales in 75 comparable Federal and State markets were down 3 percent from a year earlier and cream and cream mixtures were down about 5½ percent (table 8).

Domestic butter sales declined 13 percent from 1960 to 1966, an annual rate of 2 percent. Present indications are that the 1967 drop may be near 10 percent. The 1967 drop in butter sales followed an average retail price rise from a year earlier of 13 percent in the last half of 1966 and 8 percent in the first half of 1967. However, starting in August, retail butter prices declined below 1966 levels.

Domestic nonfat dry milk sales in 1966 were up 9 percent from 1965 but only 2 percent from 1960. The sharp 1966 gain occurred in a tight-supply demand situation with manufacturers' prices up from a year earlier by 24 percent. Increased commercial disappearance may have occurred because of smaller supplies of solids-not-fat from other sources, and commercial users' stock-piling during the period of rising prices.

In the first half of 1967, nonfat dry milk prices continued at 23 percent above a year earlier, but by August, were running under the same month of 1966. In the first 8 months of 1967, commercial disappearance of nonfat dry milk was down 17 percent from the same period in 1966. This situation likely was a response to a continued high level of price, increased use of solids-not-fat from fluid skim and condensed milk, and the development and greater use of blends of other products as substitutes for nonfat dry milk as an ingredient in other products.

Evaporated milk sales declined an average 5 percent from 1960 to 1966 and prospects are for a larger drop this year.

Sales of low-fat fluid products are increasing--up 12 percent for January-July. Sales of low-fat frozen products, and cheese other than American are also up. American cheese sales, up some 10 percent last year, likely will not gain in 1967. Larger CCC donations to school lunch and welfare programs may have lowered these sales.

Consumption of milk in all products is falling less this year than sales. The reason is that CCC donations for use in domestic programs are rising to around 3½ billion pounds milk equivalent from the low 1.1 billion in 1966. Domestic civilian use of milk in all products is estimated at about 114.4 billion pounds, about 2 percent lower than in 1966 (table 9). Total civilian consumption of both American and other cheese rose; that of most other major products declined (table 10).

Per capita consumption of milk in all products (milk equivalent, fat solids basis) likely will be about 58½ pounds, down about

Table 7.--Commercial disappearance: Total milk, January-September, 1964-67

Item	1964	1965	1966	1967	Change		
	1/	1965	1966	1/	1965	1966	1967
	Bil. lb.	Bil. lb.	Bil. lb.	Bil. lb.	Pct.	Pct.	Pct.
Production	97.7	96.3	92.4	92.2	-1.4	-4.1	-0.2
Farm use	4.9	4.5	4.2	3.8	-8.2	-6.7	-9.5
Marketings	92.8	91.8	88.2	88.4	-1.1	-3.9	+2
Beginning commercial stocks (Jan. 1)	4.1	4.3	3.9	4.8	+4.9	-9.3	+23.1
Imports	.6	.6	2.1	2.6	0	+250.0	+23.8
Total supplies	97.5	96.7	94.2	95.8	-.8	-2.6	+1.7
Ending commercial stocks (Sept. 30)	4.9	5.3	6.0	5.5	+8.2	+13.2	-8.3
Net removals (CCC & PIK)	7.2	6.3	.2	6.9	-12.5	-96.8	2/
Com'l. disappearance	85.4	85.1	88.0	83.4	-.4	+3.4	-5.2

1/ Partly estimated. 2/ 1967 level 34½ times that of 1966.

Table 8.--Fluid milk products: Average daily sales in State and Federal marketing areas, 1966-67 1/

Year and month	Whole milk		Skim milk items		Milk & cream mixtures		Fluid cream products		Total fluid items	
	Current	Change	Current	Change	Current	Change	Current	Change	Current	Change
	month	from year earlier	month	from year earlier	month	from year earlier	month	from year earlier	month	from year earlier
	Mil. lb.	Pct.	Mil. lb.	Pct.	Mil. lb.	Pct.	Mil. lb.	Pct.	Mil. lb.	Pct.
1966										
Jan.	94.3	1.3	11.4	9.4	1.2	-1.6	0.7	-2.6	91.7	2.3
Feb.	95.7	2.0	11.9	9.9	1.2	-1.5	.7	-1.1	93.6	3.1
Mar.	95.9	.4	12.1	8.5	1.2	-3.0	.7	-2.9	94.0	1.4
Apr.	94.1	.7	12.4	12.8	1.3	0	.8	0	93.4	2.6
May	89.7	.8	11.8	11.3	1.2	.5	.7	-1.9	88.0	2.6
June	85.4	-.7	12.0	12.3	1.2	-2.3	.7	-4.8	84.4	1.4
July	83.8	-2.3	11.7	9.2	1.1	-7.1	.7	-9.0	82.7	-1.0
Jan.-July	91.3	.4	11.9	10.4	1.2	-2.1	.7	-3.3	89.7	1.8
Aug.	84.3	1.8	11.7	14.6	1.1	-.1	.7	-.1	83.0	4.0
Sept.	93.0	.1	12.3	12.5	1.2	-1.9	.7	-2.9	91.0	1.4
Oct.	91.9	-1.7	12.2	10.8	1.1	-4.6	.6	-7.3	90.3	-.2
Nov.	91.4	-2.6	12.5	12.1	1.1	-5.6	.8	-6.9	91.1	-.5
Dec.	90.6	-1.8	12.5	13.8	1.2	-3.8	1.0	-2.2	91.1	.4
Jan.-Dec.	89.9	-.2	11.8	11.7	1.2	-4.2	.7	-3.8	90.2	1.5
1967										
Jan.	92.1	-2.3	12.9	12.9	1.1	-5.9	.6	-3.8	91.6	-.1
Feb.	93.5	-2.3	13.5	13.4	1.2	-5.2	.7	-4.2	93.6	.1
Mar.	92.6	-3.4	13.7	12.6	1.2	-4.9	.7	1.8	92.9	-.7
Apr.	89.6	-4.8	13.3	7.5	1.1	-10.6	.7	-13.4	89.8	-3.8
May	89.3	-.5	13.4	14.0	1.2	-3.3	.7	-2.7	89.6	1.9
June	83.3	-2.5	13.4	11.9	1.1	-4.6	.7	-4.9	84.6	.2
July	80.0	-4.5	12.9	10.1	1.1	-3.3	.6	-4.2	81.2	-1.8
Jan.-July	88.6	-2.8	13.3	11.9	1.1	-5.3	.7	-5.5	89.0	-.6
Aug. 2/	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	83.6	-2.0

1/ For comparable markets in each category and month. 2/ Preliminary.

Table 9 .--Milk equivalent: Domestic civilian disappearance, commercial and noncommercial sources, total and per capita, United States, 1947-67

Year	Civilian disappearance						Consumption excluding					
	Consumed on farms 1/	CGC supplies of butter and cheese to civilian channels	National School Lunch and Special Milk Programs	Commercial sources	All sources	Total military utilization 2/	donations from CGC supplies			Total		
							Civilian	Military				
	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	
1947	16,255	25	432	92,855	109,567	1,355	109,542	1,344		110,886		
1948	15,442	124	461	88,917	104,944	1,900	104,820	1,900		106,720		
1949	14,677	253	553	92,869	108,352	1,369	108,099	1,369		109,468		
1950	14,250	623	677	94,964	111,108	1,766	109,837	1,766		111,603		
1951	13,890	167	753	92,805	107,539	3,363	107,372	3,363		110,735		
1952	13,119	137	795	92,961	106,970	3,102	106,833	3,102		109,935		
1953	12,280	1,324	915	93,035	107,434	2,943	106,110	2,943		109,053		
1954	11,598	2,454	1,394	95,979	110,946	3,213	108,492	3,081		111,573		
1955	11,359	3,102	1,743	98,697	114,552	3,329	111,450	2,627		114,077		
1956	10,508	3,340	1,917	100,554	116,145	3,123	112,805	2,635		115,440		
1957	9,431	2,224	2,113	102,077	115,649	2,775	113,425	2,333		115,758		
1958	8,380	4,040	2,284	102,352	116,885	2,610	112,845	2,114		114,959		
1959	7,378	2,840	2,455	103,949	116,451	2,574	113,611	2,064		115,675		
1960	6,610	2,040	2,755	105,259	116,364	2,532	114,324	2,228		116,552		
1961	5,950	3,385	2,602	104,191	116,128	2,472	112,743	2,111		114,854		
1962	5,334	4,848	2,755	104,839	117,776	2,969	112,928	2,344		115,272		
1963	4,813	4,929	2,902	105,239	117,883	2,964	112,954	2,415		115,369		
1964	4,337	5,206	3,031	107,008	119,582	3,007	114,376	2,525		116,901		
1965	3,915	3,593	3,215	107,964	118,687	2,819	115,094	2,387		117,481		
1966 3/	3,522	1,136	3,373	109,025	117,056	2,376	115,920	2,376		118,296		
1967 4/	3,100	3,680	3,534	104,060	114,374	2,391	111,107	2,391		113,498		
Per capita civilian disappearance 5/												
	Consumed on farms 1/	CGC supplies of butter and cheese to civilian channels	National School Lunch and Special Milk Programs	Commercial sources	All sources							
	Lb.	Lb.	Lb.	Lb.	Lb.	Lb.	Lb.	Lb.	Lb.	Lb.	Lb.	
1947	114	6/	3	3	651	768	651	768		768		
1948	106	1	3	3	612	723	612	723		722		
1949	99	2	4	4	629	734	629	734		732		
1950	95	8	4	4	632	740	632	740		732		
1951	92	1	4	4	615	714	615	714		714		
1952	86	1	5	5	606	698	606	698		699		
1953	79	8	5	5	596	689	596	689		682		
1954	73	15	6	6	603	697	603	697		701		
1955	70	19	9	9	608	706	608	706		686		
1956	64	20	11	11	608	702	608	702		698		
1957	56	13	11	11	606	687	606	687		687		
1958	49	24	12	12	597	682	597	682		656		
1959	42	16	13	13	596	667	596	667		649		
1960	37	11	14	14	591	653	591	653		654		
1961	33	19	14	14	575	641	575	641		634		
1962	29	26	15	15	570	627	570	627		627		
1963	26	26	16	16	564	631	564	631		618		
1964	23	27	16	16	565	631	565	631		617		
1965	20	19	17	17	563	618	563	618		612		
1966 3/	18	6	17	17	563	604	563	604		610		
1967 4/	16	19	18	18	532	584	532	584		580		

1/ Milk and butter consumed in households on milk-producing farms, 1947-54, 1955 to date, includes a small amount of farm-churned butter sold. 2/ Includes any quantities used by military in civilian feeding programs abroad. 3/ Preliminary. 4/ Estimated. 5/ Aggregate in each category divided by total civilian population. 6/ Less than 0.5 pound.

Table 10.--Dairy products: Supply and utilization, 1947-49 and 1957-59 averages, calendar years, 1955-67

Year	Supply				Utilization							Total use	Stocks at end of year
	Stocks at beginning of year	Production	Imports	Total supply	Exports and shipments 1/		Domestic use						
					Commer- cial	USDA	Mil- itary	Civilian					
								USDA	Commer- cial	Animal feed			
	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	
Butter 2/													
1947-49	26	1,611	1	1,638	10	---	32	2	1,531	---	1,575	63	
1957-59	61	1,477	2	1,540	8	19	52	102	1,296	---	1,477	63	
1955	379	1,545	1	1,925	8	216	77	110	1,351	---	1,762	163	
1956	163	1,553	3	1,719	24	160	70	113	1,327	---	1,694	25	
1957	25	1,533	3	1,561	6	7	55	64	1,342	---	1,474	87	
1958	87	1,486	2	1,575	8	30	51	128	1,289	---	1,506	69	
1959	69	1,411	2	1,482	10	19	51	114	1,257	---	1,451	31	
1960	31	1,436	3	1,470	8	2	50	83	1,250	---	1,393	77	
1961	77	1,536	2	1,615	7	2	46	148	1,187	---	1,390	225	
1962	225	1,579	2	1,806	14	28	64	161	1,180	---	1,447	359	
1963	359	1,454	2	1,815	73	128	64	169	1,110	---	1,544	271	
1964	271	1,469	2	1,742	136	172	66	180	1,117	---	1,671	71	
1965	71	1,346	2	1,419	56	19	60	130	1,102	---	1,367	52	
1966 3/	52	1,128	2	1,182	15	4	33	51	1,047	---	1,150	32	
1967 4/	32	1,250	2	1,284	6	2	25	130	947	---	1,104	180	
American cheese													
1947-49	118	911	1	1,030	102	15	11	10	750	---	888	142	
1957-59	342	986	4	1,331	8	112	10	90	814	---	1,034	297	
1955	519	1,005	3	1,527	7	143	15	88	782	---	1,035	492	
1956	492	994	3	1,489	12	165	14	104	793	---	1,088	401	
1957	401	1,026	2	1,429	14	165	10	95	769	---	1,053	376	
1958	376	983	4	1,363	4	159	11	134	806	---	1,114	249	
1959	249	948	5	1,202	6	12	10	41	867	---	936	266	
1960	266	1,003	7	1,276	9	2	8	27	938	---	984	292	
1961	292	1,156	17	1,465	11	1	6	23	1,004	---	1,045	420	
1962	420	1,102	14	1,536	9	19	9	144	969	---	1,150	386	
1963	386	1,115	18	1,519	12	33	10	130	1,012	---	1,197	322	
1964	322	1,164	13	1,499	15	9	11	133	1,035	---	1,203	296	
1965	296	1,166	16	1,478	14	5	11	80	1,098	---	1,208	270	
1966 3/	270	1,229	50	1,549	14	1	11	5	1,196	---	1,227	322	
1967 4/	322	1,280	62	1,664	18	1	15	90	1,190	---	1,314	350	
Nonfat dry milk													
1947-49	52	765	3	820	45	81	102	6	455	---	689	131	
1957-59	222	1,686	2	1,910	114	575	3	122	852	37	1,703	207	
1955	324	1,366	2	1,692	24	510	4	84	805	15	1,442	250	
1956	250	1,490	1	1,741	143	511	4	91	773	18	1,540	201	
1957	201	1,624	2	1,827	192	493	3	97	798	21	1,604	223	
1958	223	1,710	2	1,935	81	609	3	135	818	46	1,692	243	
1959	243	1,723	2	1,968	68	624	3	133	941	43	1,812	156	
1960	156	1,819	1	1,976	93	381	1	107	999	12	1,593	383	
1961	383	2,020	2	2,405	116	645	6	171	957	23	1,918	487	
1962	487	2,230	1	2,718	187	713	4	179	940	20	2,043	675	
1963	675	2,106	2	2,783	373	772	2	165	922	62	2,296	487	
1964	487	2,177	2	2,666	744	593	3	153	966	33	2,492	174	
1965	174	1,989	1	2,164	375	512	8	146	923	46	2,010	154	
1966 3/	154	1,595	3	1,752	104	306	19	127	1,019	58	1,633	119	
1967 4/	119	1,740	1	1,860	22	400	30	140	978	60	1,630	230	

Continued-

Table 10.--Dairy products: Supply and utilization, 1947-49 and 1957-59 averages, calendar years, 1955-67 - continued

Year	Supply				Utilization					
	Stocks at beginning of year	Production	Imports	Total supply	Exports and shipments 1/	Domestic use			Total use	Stocks at end of year
					Commercial	USDA	Military	Civilian		
	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.
Cheese other than American										
1947-49	24	249	21	294	9	---	1	264	274	20
1957-59	39	411	53	503	3	---	1	460	464	39
1955	30	362	49	441	2	---	1	411	414	27
1956	27	394	51	472	4	---	2	426	432	40
1957	40	381	49	470	2	---	1	433	436	34
1958	34	416	52	502	3	---	1	454	458	44
1959	44	435	59	538	3	---	1	496	500	38
1960	38	475	56	569	3	---	1	524	528	41
1961	41	479	59	579	3	---	6	517	526	53
1962	53	490	64	607	1	---	5	563	569	38
1963	38	517	65	620	1	---	3	577	581	39
1964	39	559	65	663	1	---	6	614	621	42
1965	42	589	63	694	3	---	5	648	656	38
1966 3/	38	627	85	750	3	---	7	690	700	50
1967 4/	50	615	110	775	3	---	7	715	725	50
Evaporated and condensed milk										
1947-49	264	3,497	---	3,761	410	66	79	2,916	3,471	290
1957-59	222	2,789	---	3,011	118	79	49	2,544	2,790	221
1955	214	2,922	---	3,136	199	---	86	2,626	2,911	225
1956	225	2,953	---	3,178	132	115	66	2,626	2,939	239
1957	239	2,873	---	3,112	96	139	56	2,592	2,883	229
1958	229	2,751	---	2,980	141	54	48	2,538	2,781	199
1959	199	2,743	---	2,942	118	44	43	2,501	2,706	236
1960	236	2,666	---	2,902	138	42	47	2,447	2,674	228
1961	228	2,631	---	2,859	133	47	49	2,399	2,628	231
1962	231	2,409	---	2,640	106	51	47	2,289	2,493	147
1963	147	2,369	1	2,517	80	87	41	2,170	2,378	139
1964	139	2,395	1	2,535	91	63	31	2,157	2,342	193
1965	193	2,178	2	2,373	71	68	52	2,040	2,231	142
1966 3/	142	2,185	4	2,331	116	75	63	1,871	2,125	206
1967 4/	206	1,970	8	2,184	110	60	75	1,727	1,972	212
Dry whole milk										
1947-49	18	154	---	172	95	8	6	48	157	15
1957-59	8	94	---	102	47	1	2	45	95	7
1955	8	108	---	116	62	---	5	40	107	9
1956	9	110	---	119	55	1	3	49	108	11
1957	11	103	---	114	61	3	4	37	105	9
1958	9	88	---	97	40	1	2	48	91	6
1959	6	90	---	96	40	---	1	49	90	6
1960	6	98	---	104	40	---	2	55	97	7
1961	7	82	---	89	29	---	3	50	82	7
1962	7	86	---	93	23	3	1	61	88	5
1963	5	91	---	96	31	11	1	48	91	5
1964	5	88	---	93	24	1	---	61	86	7
1965	7	89	---	96	26	4	2	59	91	5
1966 3/	5	94	---	99	23	4	1	64	92	7
1967 4/	7	85	---	92	19	3	4	58	84	8

1/ Beginning 1955, USDA consists of exports under P.L. 480 and AID programs; all other, whether or not Government-assisted are listed as commercial. 2/ Includes farm butter. 3/ Preliminary. 4/ Estimated.

3 percent from the 604 pounds in 1966. This compares with about a 1 percent average annual decline for 1960 to 1966. About half this year's decline is in fluid milk and cream. Expected increases in domestic sales of milk in 1968, together with rising CCC donations of dairy products, may maintain per capita consumption.

U. S. Dairy Stocks Above 1966 Levels

Storage stocks of dairy products on October 1 were estimated at 9.5 billion pounds milk equivalent, up about 3.5 billion pounds from a year earlier (table 11). The rise has come about from the increase in USDA stocks of butter and cheese to the equivalent of 4.1 billion pounds of milk, from negligible year-end holdings in 1966. Commercial stocks of dairy products were about 5.5 billion pounds milk equivalent, down from 6 billion a year earlier.

It is likely that commercial requirements and program needs will pull year-end holdings of dairy products down to around 8 billion pounds milk equivalent. Prospects indicate little change next year in marketings, a decline in imports, somewhat higher commercial disappearance, and larger CCC program utilization of dairy products. These conditions may bring 1968 year-end stocks below the 1967 figure.

Most of the increase from a year earlier in dairy product stocks is due to large CCC stocks of butter on October 1, compared with none a year earlier. Commercial holdings of butter were down about 40 percent to 38 million pounds. Production levels in 1967 are high relative to demand. This makes it possible for distributors to carry lower stocks than in 1966.

Commercial holdings of natural American cheese were 346 million pounds, about the same as a year earlier. CCC stocks are 37 million pounds, compared with none a year earlier.

Stocks of cheese other than American, totalled 55 million pounds on October 1, compared with 51 million a year ago. Year-end stocks likely will be near last year's 50 million pounds.

Nonfat dry milk stocks on October 1, were 267 million pounds, including 136 million pounds in manufacturer's stocks. Manufacturers were holding about 15 percent more nonfat dry milk than a year earlier, while government stocks of 131 million pounds compared with less than 1 million pounds on October 1, 1966. During the seasonally low production period this fall, nonfat dry milk stocks likely will fall somewhat, but at year-end they are expected to be nearly double the 119 million pounds at the end of 1966.

Evaporated and condensed milk stocks have been substantially above a year earlier throughout 1967 and on October 1, were respectively 292 million pounds, up 19 percent from a year earlier, and 12 million pounds, up about 63 percent. Stocks of both of these products are likely to move closer to year earlier levels by the end of this year.

Price Support Purchases Near 5-Year Average

In calendar year 1967, CCC is likely to remove from the domestic market, butter, cheese, and nonfat dry milk equivalent to more than 7 billion pounds of milk (fat solids basis), near the 8 billion pound 1961-65 average. This year's removals compare with only 0.6 billion pounds in 1966.

Because of lower imports and an expected small rise in commercial disappearance, CCC removals in 1968 are expected to be less than in 1967.

Government purchases started to increase from low levels in October 1966, although milk production was near year earlier relatively low levels. However, commercial sales lagged and imports rose, bringing about a sharp expansion in USDA dairy product purchases. In the first quarter of 1967, removals were equivalent to 2.2 billion pounds of milk, up from 0.2 billion a year earlier and 0.4 billion in 4th quarter 1966. By the end of September 1967, CCC removals reached 6.9 billion pounds, compared with 0.2 billion a year earlier.

In the year ending June 30, 1967,

Table 11.--Stocks of dairy products, United States, end of year or month, 1960-67

Year or month	Commercial Stocks					Government Stocks					Total milk equivalent 2/
	Butter	American cheese	Other cheese	Evaporated milk	Nonfat dry milk	Butter 1/	American cheese	Nonfat dry milk			
	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.		
1960	21.2	291.4	40.6	221.0	103.1	55.6	0.6	279.8	5,392		
1961	19.5	366.4	53.0	225.1	132.5	205.3	53.5	354.9	9,902		
1962	31.2	307.1	37.8	141.4	99.0	328.2	79.1	576.0	12,166		
1963	32.1	282.7	39.1	131.7	81.5	239.0	39.1	404.6	9,691		
1964	37.1	271.9	42.3	185.3	108.8	33.8	24.4	65.5	5,294		
1965	27.1	270.2	37.6	134.8	58.2	25.0	.3	96.2	4,458		
1966	30.2	322.1	50.4	192.9	118.9	2.1	.2	---	4,858		
1966											
March	21.2	235.1	40.3	40.2	47.5	4.3	.3	20.6	3,410		
June	84.0	320.8	48.5	205.8	139.8	1.8	.3	8.3	6,107		
September	67.6	346.8	51.3	245.1	119.1	.9	.3	.7	6,042		
December	30.2	322.1	50.4	192.9	118.9	2.1	.2	---	4,858		
1967 3/											
March	25.9	314.6	49.4	81.9	99.6	50.3	3.4	.1	5,523		
June	45.0	374.8	53.7	228.6	157.6	146.7	14.2	34.7	9,106		
September	38.3	346.5	55.1	292.2	266.7	173.1	37.3	130.7	9,543		

^{1/} Includes butter equivalent of butteroil and ghee, 1962-67. ^{2/} Includes manufactured products for which current monthly series are available (excludes nonfat dry milk). ^{3/} Preliminary.

Table 12.--Dairy products: Exports and imports, United States, 1965-67

Commodity	Exports					Imports				
	1965		1966		January-August	1965		1966		January-August
	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.		Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	
Butter ^{1/}	65.8	13.7	11.8	2.4	2.4	2.2	2.2	1.9	1.6	
Cheese	6.8	6.0	4.0	4.1	4.1	79.3	135.5	74.2	114.9	
Condensed milk	65.8	94.3	62.6	22.0	22.0	1.8	2.7	1.3	3.8	
Dry whole milk	18.6	15.6	12.0	8.3	8.3	---	2/	2/	---	
Evaporated milk	24.7	38.4	26.1	23.9	23.9	2/	.6	.2	.8	
Fresh cream	---	---	---	---	---	12.6	15.0	10.9	9.5	
Milk and cream ^{3/}	9.0	9.8	6.6	7.3	7.3	---	---	---	---	
Nonfat dry milk	863.4	387.7	336.2	310.7	310.7	1.4	2.8	1.2	.3	
Casein	3.3	3.6	2.3	3.4	3.4	91.8	107.9	75.2	64.5	
Butterfat-sugar mixtures ^{4/}	---	---	---	---	---	3.4	105.6	97.3	99.4	

^{1/} Includes butter equivalent of butteroil and anhydrous milkfat. ^{2/} Less than 50,000 pounds. ^{3/} Mostly whole milk. ^{4/} Less than 45 percent milkfat.

net USDA expenditures for price support and related programs (excluding the Special Milk Program) totalled \$299 million. This is up from the \$54 million in 1965/66 because of larger purchases and higher support purchase prices.

This year through September, USDA purchased (delivery basis) 25¹/₄ million pounds of butter compared with 7 million in the same period of 1966. Purchases in September totalled only 1.5 million pounds. Butter removals already total more than 10 times the 23 million pounds of 1966.

Through September this year, CCC purchased 148 million pounds of American cheese, compared with none in 1966. Cheese scheduled for delivery in the last quarter will be seasonally low but already exceeds the 13 million of a year earlier. For all of 1967, American cheese purchases (delivery basis) may approximate 180 million pounds.

CCC purchases of nonfat dry milk through September totalled 568 million pounds this year. This is about double the 286 million pounds of a year earlier. Prospects for all of 1967 are for CCC nonfat dry milk removals to total over 700 million pounds, compared with last year's 366 million.

In October this year, USDA began buying nonfat dry milk in 50 pound bags under an open offer at 19.85 cents per pound. This is ¹/₄ cent higher than the 19.6 cents per pound purchase price for nonfat dry milk in 100-pound bags. CCC is considering discontinuing purchases of nonfat dry milk in 100-pound bags beginning April 1, 1968.

CCC Expands Dairy Utilization Program

In 1967, USDA is expected to distribute butter and cheese equivalent to over 3¹/₂ billion pounds of milk for use in School Lunch and Welfare Programs. This compares with about 1.1 billion pounds in 1966. Distribution of butter and cheese through the School Lunch Program had stopped in 1966 when CCC supplies ran out. USDA resumed distribution of butter and cheese through the School Lunch Program

last October with butter and cheese purchased under Section 709 authority at market prices, and has continued distribution with supplies purchased at support price levels.

Although USDA made butter available to schools in the fall of 1966, the rate at which the School Lunch Program could take it was lower than in the peak donation years. USDA requires schools to make butter or margarine available on menus to be eligible to receive school lunch act funds. However, after March of 1966, USDA had no butter supplies available for distribution. During this time, this requirement had to be met from locally procured butter or margarine. Since mid-1967, distribution of butter through the School Lunch Program has increased. In 1968, it may come close to the high rates of previous years.

In July this year, USDA resumed distribution of butter to needy families and charitable institutions. In former years, these outlets have used as much as 80-90 million pounds annually. Because butter has been available less than a full year and because the operation of the Food Stamp plan has reduced the number of people eligible for direct distribution, use of butter for welfare distribution will be lower than in many earlier years.

In 1967, about 25 million pounds of margarine were distributed to needy persons and institutions. However, margarine purchases for welfare distribution were discontinued early in March when CCC butter supplies became sufficiently large for both School Lunch and Welfare use.

Exports of CCC butter and cheese have been negligible this year. However, foreign nonfat dry milk donations have been maintained at about 1966 rates and the rate is expected to increase in future months. Mounting CCC stocks of nonfat dry milk are making more nonfat dry milk available for overseas shipment. Prospects are that exports under Title I and government-to-government sales may increase in coming months. Nearly all the nonfat dry milk donated abroad in 1967 has been fortified with vitamins. Only regular nonfat dry milk has been used in domestic programs.

In addition to use of nonfat dry milk in foreign outlets, USDA purchased 297 million pounds of blended food products (CSM)--containing gelatinized corn-meal, soyflour, 5 percent nonfat dry milk, and vitamins and minerals--this year through October 13, for overseas donation through voluntary agencies and the Agency for International Development Programs (AID). A total of 332 million pounds has been purchased since CSM purchases started.

Federal Order Developments

A recommended decision for the Central Arizona market, issued in October, proposes that fluid milk products with added vegetable fat be defined as "fluid milk product" under the order and that the skim milk therein be classified as Class I milk. This is the first attempt by Federal milk marketing orders to deal with the classification of imitation or filled milk fluid products. Interested parties have been asked for exceptions and comments.

Central Arizona handlers processed and distributed 1,185 thousand pounds of Class I milk products containing vegetable fat in August 1967, nearly three times the 438 thousand pounds distributed in October 1966. As a percentage of total Class I sales by handlers, the volume of imitation milk distributed increased from 1.3 percent in October 1966 to 3.8 percent in August 1967.

A new Minnesota-North Dakota order became partially effective October 1 and will become fully effective November 1. The marketing area of this order covers a 41-county area--22 counties in Minnesota, 16 in North Dakota, and 3 in South Dakota--in which some 600,000 people live. There are now 74 Federal milk orders in effect.

Producers in the Massachusetts-Rhode Island market have approved an amended order which expands the marketing area to include five additional counties and several more adjoining towns, all in southern New Hampshire, and the remaining unregulated portion of Essex County, Massachusetts. The amended order will be effective December 1. A final decision

on another issue considered at the hearing, amending the order farm location differentials, was deferred pending the outcome of court proceedings on their legality.

A hearing has been announced for the New York-New Jersey, Massachusetts-Rhode Island, and Connecticut Federal order markets to consider proposals for a common Class I price.

In 52 Federal Order markets, producers were obtaining Class I prices above the Federal Order minimum prices in October of this year, compared with 32 in August of this year, and about 22 last October. In most of these markets, producer organizations have negotiated these higher prices with milk handlers. The negotiated Class I prices in October ranged from 5 cents to \$1.50 per 100 pounds above the minimum Federal Order Class I prices. In early September, producer cooperatives obtained premiums up to 50 cents per 100 pounds above the Federal Order Class I price in a number of markets in Texas, Oklahoma, Arkansas, Indiana, Tennessee, Wisconsin, Kansas, Illinois, and Missouri.

EXPORTS AND IMPORTS

U. S. Dairy Exports Down in 1967

U. S. exports of dairy products, including shipments under Government programs, are expected to total about 0.5 billion pounds milk equivalent in 1967, down from about 0.8 billion pounds in 1966. Evaporated milk exports may exceed those of 1966 and nonfat dry milk exports may be up slightly. Exports of butter, condensed milk, and dry whole milk are down from a year earlier (table 12). These quantities do not include the approximately 0.5 billion pounds milk equivalent shipped off shore to U. S. territories and islands.

During January-August, except for shipments of nonfat dry milk under the Food for Peace Program, practically no exports were made from CCC stocks of dairy products. The CCC export sales and Payment in Kind programs both were suspended in early 1966. Government-to-government sales of nonfat dry milk were sharply reduced in 1966 because U. S. supplies were low. Non-

fat dry milk exports have been primarily for donation and sale under Food for Peace Programs. For all of 1967, these exports likely will approximate 400 million pounds, just above the 391 million of 1966.

Condensed milk exports under Title I of P. L. 480 were substantial in 1966, but relatively small in the first 3 quarters of this year. However, a new contract has been negotiated for delivery in the last quarter of 1967 which may bring 1967 exports of condensed milk to about 4/5 of last year's 80 million pounds.

In 1967, off shore shipments to U. S. territories and islands totalled almost a half billion pounds milk equivalent and were nearly as large as commercial exports. These shipments of American cheese and evaporated milk exceeded exports, but shipments of nonfat dry milk were only about a tenth as large. Commercial sales of U. S. dairy products in these territories and islands have slowly trended upward over the past 5 years from about a quarter billion pounds milk equivalent in 1961. Competition from foreign suppliers has been reported during 1967. It may increase in the future.

Second Half Dairy Imports Drop Sharply

The new dairy import quotas proclaimed by the President on June 30, dropped July and August dairy imports to about 0.1 billion pounds milk equivalent from about 0.7 billion pounds a year earlier. These figures do not include quantities of butterfat-sugar mixtures and "other American" types of cheese which were in transit or in the United States but not officially entered on June 30th.

The new quotas became effective July 1 and are expected to limit imports to about 1 billion pounds milk equivalent per calendar year. For the last half of 1967, the quota was set at half the calendar year rate.

In the first half of 1967, dairy product imports amounted to 2.2 billion pounds milk equivalent, up 60 percent from a year earlier. But, because of the new quotas, imports for the year as a whole

likely will total only a little above the 2.8 billion pounds milk equivalent entered in 1966. The total figure will depend on how completely exporting countries fill their import quotas. At the end of August, Australia had an unfilled quota of about a million pounds of butterfat-sugar mixtures remaining for the last half of 1967.

Similarly, New Zealand had about 6 million pounds of frozen cream quota remaining for calendar 1967. Imports of Cheddar and other American type cheese under the quota may start arriving in early November. During 1966, imports of Italian type cheese fell about 30 percent below the quota. This year, receipts again may be less than the quota because of high prices in Argentina and Italy and the lack of aged grating cheese for export in Argentina.

Milk Production Continues to Rise in Major Exporting Countries

Milk production in European countries continues to rise. Preliminary estimates indicate France's output will be up around 4-5 percent, and substantial gains are in prospect for the Netherlands and West Germany. At the end of September, butter stocks in the EEC countries (excluding Italy) were estimated at 527 million pounds, approximately 13 percent above a year earlier; those in other major West European dairy countries were estimated to be about 254 million pounds, up 8 percent. The 1966/67 production season in New Zealand ended in May, with dairy production at a record level for the fifth consecutive season. However, June-May butter production was only slightly above a year earlier and cheese production was up about 3 percent. On the other hand, output of nonfat dry milk rose 75 percent to about 250 million pounds in 1966/67. Australia production has recovered from relatively low levels caused by droughts in the last couple years.

Continued subsidized exports of butter and other high-fat products originating in continental Europe are causing problems to other countries. Exports of butteroil to the United Kingdom rose from about 9 million pounds in 1965/66 to over 44 million in the year ending March 21, 1967. Heavily subsidized French, Dutch, and West

German butter was being offered in world markets at rates sharply below New Zealand prices. West Germany and the Netherlands increased their export subsidies on butter this past summer in order to enable exporters to lower prices.

Skim milk powder production in the EEC rose 24 percent in 1966 and is rising substantially again this year. European

skim milk powder in other years had been largely absorbed internally for livestock feed and human food. It was recently reported that substantial tonnages of West European skim milk powder are being offered for sale in Asia, Africa, Caribbean, and South American markets. Free at border price in Holland for nonfat dry milk has been under 12 cents per pound since late September.

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: The Annual National Agricultural Outlook Conference :
: will be held November 13-16, 1967, in the U.S. De- :
: partment of Agriculture at Washington, D.C. The :
: Dairy Session is scheduled for 9:15-10:40 a.m., :
: November 15, 1967. :
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: The Dairy Situation is published in March, :
: May, July, September and November. :
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: The next issue is scheduled for release :
: March 1968. :
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Table 13.--Milk solids in all dairy products: Production and disposition, 1947-67 1/

Year	Production 2/	Civilian disposition						
		Sold by farmers	Consumed on farms where produced 3/	National School Lunch and Special Milk Programs 4/	USDA donations 5/	Other	Total	Per capita
	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Lb.
Milkfat								
1947	4,691	3,788	645	16	1	3,711	4,373	30.7
1948	4,518	3,666	613	18	4	3,553	4,188	28.8
1949	4,631	3,823	581	21	9	3,687	4,298	29.1
1950	4,646	3,857	564	23	49	3,772	4,408	29.3
1951	4,529	3,771	569	25	5	3,640	4,239	28.1
1952	4,492	3,785	532	28	4	3,611	4,175	27.2
1953	4,667	4,003	495	29	51	3,590	4,165	26.7
1954	4,725	4,095	465	33	94	3,700	4,292	27.0
1955	4,730	4,141	436	51	117	3,799	4,403	27.2
1956	4,773	4,235	401	63	126	3,851	4,441	26.9
1957	4,744	4,267	359	69	83	3,886	4,397	26.1
1958	4,658	4,230	317	76	147	3,873	4,413	25.7
1959	4,588	4,204	277	82	106	3,912	4,377	25.1
1960	4,628	4,278	249	88	76	3,956	4,369	24.5
1961	4,715	4,395	223	92	128	3,908	4,351	24.0
1962	4,718	4,431	199	98	177	3,918	4,392	23.9
1963	4,649	4,380	179	103	179	3,911	4,372	23.4
1964	4,699	4,455	160	107	189	3,960	4,416	23.3
1965	4,597	4,370	145	113	132	3,995	4,385	22.9
1966 6/	4,432	4,231	130	119	43	4,017	4,309	22.2
1967 7/	4,420	4,249	118	124	135	3,832	4,209	21.5
Milk solids-not-fat								
1947	10,311	6,773	1,419	39	2	4,814	6,274	44.0
1948	9,923	6,598	1,348	41	13	4,754	6,156	42.4
1949	10,214	6,944	1,281	50	13	4,899	6,243	42.3
1950	10,240	7,000	1,244	54	35	5,216	6,549	43.6
1951	10,044	6,984	1,263	58	20	5,227	6,568	43.5
1952	10,011	7,178	1,188	67	23	5,483	6,761	44.1
1953	10,473	7,769	1,110	68	21	5,587	6,786	43.5
1954	10,627	8,028	1,046	79	64	5,780	6,969	43.8
1955	10,672	8,253	986	120	108	6,008	7,222	44.5
1956	10,825	8,608	911	150	120	6,196	7,377	44.6
1957	10,793	8,811	817	164	124	6,355	7,460	44.3
1958	10,659	8,893	725	181	171	6,418	7,495	43.7
1959	10,540	8,967	637	196	141	6,652	7,626	43.7
1960	10,637	9,228	571	210	112	6,805	7,698	43.2
1961	10,861	9,599	514	222	172	6,811	7,719	42.6
1962	10,895	9,773	460	236	217	6,880	7,793	42.4
1963	10,792	9,792	415	248	200	6,904	7,767	41.6
1964	10,945	10,041	374	259	190	7,037	7,860	41.5
1965	10,704	9,905	337	275	166	7,128	7,906	41.2
1966 6/	10,352	9,649	303	288	124	7,173	7,888	40.7
1967 7/	10,315	9,744	276	302	164	7,047	7,789	39.8

1/ 1947-55 includes allowance for milkfat and solids-not-fat in off-farm production. 2/ Quantities produced and used, estimated by applying the percentage of milkfat and solids-not-fat in each product to the amount of product. 3/ Fluid milk and cream and farm-churned butter. 4/ Fluid whole milk. 5/ Butter, cheese, and nonfat dry milk from CCC stocks. 6/ Preliminary. 7/ Estimated.

Table 14.--Fluid milk products: Domestic consumption,
(milk equivalent), 1947-67

Year	Civilian					Military	Total domestic
	Used on farms where produced 1/	USDA School Program		Commer- cial sources	Total		
		School Lunch	Special Milk				
	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds
1947	12,348	432	----	39,820	52,600	400	53,000
1948	11,505	461	----	39,634	51,600	400	52,000
1949	10,927	553	----	40,420	51,900	400	52,300
1950	10,508	623	----	41,169	52,300	600	52,900
1951	10,238	677	----	41,885	52,800	1,300	54,100
1952	9,836	753	----	43,011	53,600	1,300	54,900
1953	9,202	795	----	43,903	53,900	1,200	55,100
1954	8,674	866	49	45,411	55,000	1,200	56,200
1955	8,214	909	485	46,592	56,200	1,100	57,300
1956	7,694	895	848	47,863	57,300	1,100	58,400
1957	7,003	936	981	48,780	57,700	1,100	58,800
1958	6,393	1,007	1,106	48,994	57,500	1,000	58,500
1959	5,776	1,071	1,213	49,140	57,200	1,000	58,200
1960	5,273	1,155	1,300	49,572	57,300	1,000	58,300
1961	4,835	1,231	1,371	48,963	56,400	1,000	57,400
1962	4,419	1,305	1,450	49,426	56,600	1,100	57,700
1963	4,070	1,374	1,528	50,328	57,300	1,100	58,400
1964	3,742	1,451	1,580	50,727	57,500	1,100	58,600
1965	3,443	1,600	1,615	51,142	57,800	1,000	58,800
1966 2/	3,160	1,680	1,693	51,167	57,700	1,100	58,800
1967 3/	2,900	1,760	1,774	49,766	56,200	1,200	57,400

1/ Includes off-farm production, 1947-55.

2/ Preliminary.

3/ Forecast.

Table 15.--Farms reporting milk cows, by size of herd, 1959 and 1964

State and Region	1-9 cows		10-19 cows		20-29 cows		30-49 cows		50-99 cows		100+ cows		Total	
	1959	1964	1959	1964	1959	1964	1959	1964	1959	1964	1959	1964	1959	1964
	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number
Maine	5,885	3,336	1,333	537	1,056	570	685	658	170	288	26	25	9,155	5,414
N.H.	1,896	1,174	740	329	496	327	374	392	158	163	14	25	3,678	2,410
Vt.	2,361	1,352	1,993	814	2,059	1,311	2,431	2,181	959	1,196	126	140	9,929	6,994
Mass.	1,828	863	846	392	716	478	749	619	325	348	63	80	4,527	2,780
R.I.	173	116	110	37	120	52	90	93	62	50	9	11	564	351
Conn.	1,664	1,030	478	178	646	318	863	577	407	414	32	74	4,090	2,591
N.E.	13,807	7,871	5,500	2,287	5,093	3,056	5,192	4,520	2,081	2,459	270	355	31,943	20,548
N.Y.	14,928	8,903	11,160	5,486	11,751	7,973	11,613	11,577	3,760	5,049	363	576	53,575	39,564
N.J.	1,657	716	305	154	645	276	1,174	793	569	590	97	101	4,447	2,630
Pa.	27,830	17,056	13,613	7,604	11,031	8,593	6,209	7,590	1,394	1,963	79	175	60,156	42,981
M.A.	44,415	26,675	25,078	13,244	23,427	16,842	18,996	19,960	5,723	7,602	539	852	118,178	85,175
Ohio	42,448	21,339	14,473	8,159	6,351	4,946	2,950	4,151	753	1,190	40	111	67,015	39,896
Ind.	34,530	14,546	9,273	5,162	3,570	2,820	1,785	2,405	299	730	25	57	49,482	25,720
Ill.	38,695	15,886	9,418	4,912	5,309	3,770	3,582	3,967	584	1,029	56	64	57,644	29,628
Mich.	26,908	13,403	13,937	7,986	6,856	5,591	3,388	4,679	634	1,371	51	146	51,774	33,176
Wis.	17,677	11,644	34,810	20,706	33,089	26,092	16,952	22,641	2,065	4,096	100	228	104,693	85,407
E.N.C.	160,258	76,818	81,911	46,925	55,175	43,219	28,657	37,843	4,335	8,416	272	606	330,608	213,827
Minn.	35,451	18,477	35,851	24,338	15,337	17,230	5,020	8,980	598	1,214	49	64	92,306	70,303
Iowa	61,761	30,636	22,453	15,334	7,347	8,344	2,580	4,439	336	859	30	61	94,507	59,673
Mo.	75,557	42,052	13,820	8,482	4,338	3,602	2,061	2,387	457	785	63	90	96,296	57,398
N. Dak.	19,466	11,530	8,943	6,847	1,585	1,986	403	762	79	187	8	17	30,484	21,329
S. Dak.	22,712	12,532	7,580	5,130	1,249	2,212	394	1,027	104	268	5	23	32,044	21,192
Nebr.	39,918	20,634	7,542	5,399	1,401	1,725	670	986	180	328	8	47	49,719	29,119
Kansas	38,142	18,762	6,255	3,552	2,077	1,511	1,427	1,501	279	598	23	66	48,203	25,990
W.N.C.	293,007	154,623	102,444	69,082	33,334	36,610	12,555	20,082	2,033	4,239	186	368	443,559	285,004
Del.	906	386	396	116	253	111	209	159	85	86	5	7	1,854	865
Md.	5,941	2,952	1,285	603	1,476	802	1,748	1,439	770	993	103	151	11,323	6,940
Va.	51,141	31,918	2,955	1,903	1,122	751	1,474	1,094	843	817	167	210	57,702	36,693
W.Va.	27,496	17,104	1,301	678	673	424	464	371	100	170	7	25	30,041	18,772
N.C.	68,894	38,523	1,641	837	1,142	761	1,175	1,005	430	661	63	131	73,345	41,918
S.C.	24,106	10,648	323	171	363	116	437	279	337	292	92	151	25,658	11,657
Ge.	40,641	20,578	320	175	368	155	945	717	728	186	251	43,177	22,337	
Fla.	8,016		23		20		73		223	462			8,517	
S.A.	227,141		8,244		5,417		6,525		3,505		1,085		251,917	
Ky.	77,856	46,089	8,495	7,622	2,751	2,644	1,246	1,698	363	559	22	77	90,733	58,689
Tenn.	76,555	43,364	7,129	5,281	2,128	1,733	1,570	1,515	664	869	91	169	88,137	52,931
Ala.	55,666	30,312	487	382	373	138	464	264	374	438	225	311	57,589	31,845
Miss.	61,343	33,267	2,492	1,469	1,367	631	1,351	1,049	838	944	149	207	67,540	37,567
E.S.C.	271,420	153,032	18,603	14,754	6,619	5,146	4,631	4,526	2,239	2,810	487	704	303,999	181,032
Ark.	40,469	23,161	2,864	1,405	875	653	821	589	181	334	39	56	45,249	26,198
La.	37,586	21,904	267	97	670	253	1,122	812	656	1,031	98	235	40,399	24,332
Okla.	36,736	19,332	2,931	1,166	1,600	778	1,308	1,075	482	658	76	111	43,133	23,120
Tex.	78,370		1,152		1,130		2,489		2,014		526		85,681	
W.S.C.	193,161		7,214		4,275		5,740		3,333		739		214,462	
Mont.	13,178	9,205	887	490	303	202	302	240	173	142	17	23	14,860	10,302
Idaho	13,861	8,254	4,627	2,729	1,689	1,318	949	1,009	266	366	31	72	21,423	13,748
Wyo.	4,921	3,310	330	194	203	102	90	120	35	66	1	14	5,580	3,806
Colo.	13,093	7,702	1,060	418	616	246	843	484	377	419	62	112	16,051	9,381
N. Mex.	5,349	3,125	149	46	76	24	138	63	110	110	32	76	5,854	3,444
Ariz.	1,742	1,150	23	4	27	3	73	17	156	67	126	152	2,147	1,393
Utah	7,077	4,316	1,236	659	636	410	656	492	286	304	14	54	9,905	6,235
Nev.	955	636	32	15	26	12	56	25	57	57	15	33	1,141	778
MOUNT.	60,176	37,698	8,344	4,555	3,576	2,317	3,107	2,450	1,460	1,531	298	536	76,961	49,087
Wash.	18,216	10,498	1,595	647	1,793	772	1,639	1,344	700	860	119	224	24,062	14,345
Ore.	16,242	10,511	1,448	730	914	507	843	670	557	519	77	139	20,081	13,076
Calif.	11,958		1,314		1,196		1,430		1,974		2,479		20,351	
PAC.	46,416		4,357		3,903		3,912		3,231		2,675		64,404	
Alaska	56	69	25	6	19	10	15	18	10	19	1	1	126	123
Hawaii	438	129	20	4	11	5	8	6	19	13	42	43	538	200
U.S.	1,310,295		261,740		140,849		89,338		27,969		6,594		1,836,785	
47-State:														
Total	1,211,951	664,430	259,251	159,385	138,503	113,288	85,346	98,692	23,758	34,238	3,127	5,216	1,721,936	1,075,249

Table 16.--Commercial dairy farms, by size of milk cow herd, 1959 and 1964

State and Region	1-9 cows		10-19 cows		20-29 cows		30-49 cows		50-99 cows		100+ cows		Total	
	1959	1964	1959	1964	1959	1964	1959	1964	1959	1964	1959	1964	1959	1964
	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number
Maine	300	130	1,148	461	946	508	633	610	153	263	25	24	3,205	1,996
N.H.	147	79	667	314	470	316	344	380	151	156	14	25	1,793	1,270
Vt.	450	156	1,836	773	2,025	1,293	2,420	2,169	947	1,185	125	140	7,803	5,716
Mass.	230	87	771	370	700	467	716	603	317	336	58	73	2,792	1,936
R.I.	30	7	110	32	115	50	90	91	62	49	8	10	415	239
Conn.	95	47	451	169	605	309	832	566	391	401	27	69	2,401	1,561
N.E.	1,252	506	4,983	2,119	4,861	2,943	5,035	4,439	2,021	2,390	257	341	18,409	12,718
N.Y.	1,895	889	9,962	5,067	11,467	7,812	11,419	11,427	3,686	4,965	349	560	38,778	30,720
N.J.	75	28	260	140	625	256	1,136	775	541	577	92	92	2,729	1,868
Pa.	2,346	1,583	11,484	6,916	10,446	8,319	5,944	7,416	1,346	1,900	60	156	31,626	26,290
M.A.	4,316	2,500	21,706	12,123	22,538	16,387	18,499	19,618	5,573	7,442	501	808	73,133	58,878
Ohio	4,020	2,488	9,090	5,688	5,503	4,324	2,668	3,857	701	1,118	28	96	22,010	17,571
Ind.	2,340	1,392	4,185	2,757	2,521	1,963	1,467	1,986	244	654	14	46	10,771	8,798
Ill.	950	485	3,130	1,819	3,530	2,393	2,975	3,234	512	921	50	54	11,147	8,906
Mich.	4,161	2,535	10,352	6,397	6,138	5,115	3,196	4,445	605	1,319	46	135	24,498	19,946
Wis.	5,046	3,010	30,746	18,555	31,623	25,197	16,373	22,137	1,939	3,973	85	216	85,812	73,088
E.W.C.	16,517	9,910	57,503	35,216	49,315	38,992	26,679	35,659	4,001	7,985	223	547	154,238	128,309
Minn.	5,332	3,256	20,718	15,378	12,045	14,194	4,238	8,108	524	1,115	41	60	42,898	42,111
Iowa	1,525	829	4,595	3,815	3,186	4,282	1,682	3,108	266	716	19	50	11,273	12,800
Mo.	3,655	2,651	7,006	5,508	3,464	3,073	1,833	2,203	423	750	52	81	16,433	14,266
N.Dak.	422	230	1,121	847	477	678	183	470	57	156	7	16	2,267	2,397
S.Dak.	459	193	1,272	1,194	537	1,301	225	805	82	224	5	21	2,580	3,738
Nebr.	377	261	715	1,001	611	899	481	766	140	292	6	40	2,330	3,259
Kans.	666	494	1,729	1,302	1,291	1,033	1,201	1,324	258	570	20	59	5,165	4,782
W.N.C.	12,436	7,914	37,156	29,045	21,611	25,460	9,843	16,784	1,750	3,823	150	327	82,946	83,353
Del.	45	43	225	92	201	97	175	132	77	72	5	6	728	442
Md.	215	128	985	518	1,345	747	1,659	1,373	756	960	90	143	5,050	3,869
Va.	1,426	1,343	1,422	1,345	996	671	1,400	1,038	817	791	160	202	6,221	5,390
W.Va.	546	415	960	566	615	406	442	355	90	159	7	23	2,660	1,924
N.C.	700	570	1,160	600	1,062	692	1,068	948	417	627	60	124	4,457	3,561
S.C.	140	104	182	126	330	103	400	257	313	266	82	129	1,447	985
Ga.	115	77	173	112	313	132	865	408	663	675	173	231	2,302	1,635
Fla.	5	8	20	20	60	60	212	212	458	458	763	763	763	763
S.A.	3,192	5,115	4,882	6,069	3,345	1,035	23,638	23,638	23,638	23,638	23,638	23,638	23,638	23,638
Ky.	2,220	2,038	2,732	3,911	1,831	1,944	1,012	1,444	300	486	14	63	8,109	9,886
Tenn.	2,561	2,758	3,246	3,531	1,692	1,503	1,394	1,397	592	817	82	156	9,567	9,982
Ala.	266	165	209	216	270	115	390	231	328	388	202	284	1,665	1,399
Miss.	990	582	1,252	867	1,079	540	1,220	971	795	880	127	184	5,463	4,024
E.S.C.	6,037	5,363	7,439	8,525	4,872	4,102	4,016	4,043	2,015	2,571	425	687	24,804	25,291
Ark.	1,036	544	1,491	1,015	721	555	771	528	172	314	35	50	4,226	3,006
La.	50	43	181	78	605	242	1,075	794	635	1,004	78	216	2,624	2,377
Okla.	569	287	1,097	645	1,261	653	1,188	1,027	452	639	69	102	4,636	3,353
Tex.	283	413	969	969	2,336	2,336	1,952	1,952	483	483	6436	6436	6436	6436
W.S.C.	1,938	3,182	3,556	5,370	3,211	3,211	3,211	3,211	3,211	3,211	3,211	3,211	3,211	3,211
Mont.	160	95	265	123	225	131	267	196	155	132	13	20	1,085	697
Idaho	1,063	711	2,256	1,526	1,211	985	721	849	217	332	28	64	5,496	4,467
Wyo.	64	45	91	77	147	79	72	110	31	61	1	14	406	386
Colo.	186	86	363	140	445	189	715	440	340	397	56	109	2,105	1,361
N.Mex.	29	18	63	15	55	19	118	58	98	105	30	71	393	286
Ariz.	5	9	5	3	17	3	72	16	151	60	110	140	360	231
Utah	403	336	824	491	543	375	613	481	257	288	11	49	2,651	2,020
Nev.	15	2	10	7	15	9	60	23	46	55	14	32	160	128
MOUNT.	1,925	1,302	3,877	2,382	2,658	1,790	2,638	2,173	1,295	1,430	263	499	12,656	9,576
Wash.	538	332	1,279	520	1,684	747	1,574	1,324	681	848	110	211	5,866	3,982
Oreg.	416	397	816	498	752	447	814	639	529	508	72	135	3,399	2,624
Calif.	415	892	1,045	1,045	1,284	1,284	1,284	1,284	1,901	2,411	2,411	2,411	2,411	2,411
PAC.	1,369	2,987	3,461	3,672	3,672	3,672	3,672	3,672	3,672	3,672	3,672	3,672	3,672	3,672
Alaska	4	10	24	4	19	10	15	17	9	19	1	1	72	61
Hawaii	1	1	3	2	4	3	7	6	14	11	39	41	68	64
U.S.	48,987	143,975	117,797	81,843	26,345	6,152	425,099	425,099	425,099	425,099	425,099	425,099	425,099	425,099
47-State total	48,284	31,789	142,662	95,531	115,763	95,179	78,163	91,542	22,280	32,534	2,800	4,823	409,952	351,398

CONSUMPTION PATTERNS FOR DAIRY PRODUCTS IN 1965,
WITH CHANGES FROM 1948 AND 1955 1/

Preliminary data from the nationwide food consumption survey made in 1965/66 by the Agricultural Research Service are now available for dairy products and other foods. 2/ In this survey, about 7,500 households of 1 or more members throughout the United States were interviewed during the spring (April, May, and June) of 1965. Additional surveys were made in 3 other seasons (summer 1965, fall 1965, and winter 1966). Only data from the spring 1965 survey are now available. Householders were asked to report quantities of all foods used at home and expenditures for purchased items used during the 7 days preceding the interview. Home-produced food and food received as gifts and as pay were valued at average prices paid for similar items by other households in the same area and urbanization.

These data give a picture of the consumption patterns for dairy products in the United States by levels of family income, by regions (Northeast, North Central, South, and West), and by urbanizations (urban, rural nonfarm, and rural farm). Similar surveys were made in 1936, 1942, 1948 (only in urban areas), and in 1955. Comparing the results of the later surveys will indicate changes in dairy product consumption patterns in recent years.

Value of Consumption

In the spring of 1965, the households surveyed used an average of about \$28 worth of food at home each week. 3/ Of the food dollar, about 14 cents went for dairy products. About 34 cents of the food dollar went for meats, poultry, and fish (the only food group to exceed dairy products).

During a week in the spring of 1965, U. S. households surveyed used dairy products from all sources--purchased, home-produced, and federally donated--valued at \$3.93 (table 17). Fresh fluid milk represented over half of the value of dairy

products consumed. Cheese accounted for 16 percent of the value of dairy products consumed; ice cream and other frozen desserts, 13 percent; and butter, about 8 percent.

From 1955 to 1965, the value of dairy products consumed in households declined, both in total and as a proportion of all food consumed. Households used dairy products valued at \$3.93 during a week in the spring of 1965, compared with \$4.25 per week during the spring of 1955. During this period, the value of all food used by households increased 14 percent. Therefore, as a proportion of the value of all foods, dairy products declined from 17.4 percent in 1955 to 14.1 percent in 1965. In the spring of 1948, dairy products had been about 18.8 percent of the value of all foods used by urban households. 4/

From 1955 to 1965, a declining proportion of the dairy product dollar went for fluid whole milk, evaporated milk, butter, and cream items. 5/

1/ Prepared by Robert R. Miller, ESAD, Economic Research Service.

2/ USDA, Food Consumption of Households in the United States, Spring 1965, A Preliminary Report, Agricultural Research Service, ARS 62-16, August 1967.

3/ Excludes expenditures for alcoholic beverages.

4/ The 1948 data are not directly comparable with the 1955 and 1965 data because the 1948 information is only for urban households of 2 or more persons. In urban households, 16.7 percent of the value of all foods went for dairy products in 1955 and 13.8 percent in 1965.

5/ In the preliminary report on the 1965 Household Food Consumption survey, only skim milk is shown separately from total fresh fluid milk. The remainder of the total would be mostly whole milk.

Table 17.--Value of dairy products and all foods used in households from all sources in a week, spring (April-June), United States, 1955 and 1965

Item	Average value		Average value as a percentage of:			
	per household		All		All dairy	
			foods value		products value	
	1955	1965	1955	1965	1955	1965
	Dol.	Dol.	Pct.	Pct.	Pct.	Pct.
Fresh fluid milk	2.34	2.09	9.6	7.5	55.0	53.2
Skim <u>1/</u>	.05	.14	.2	.5	1.2	3.6
Other fluid <u>2/</u>	2.29	1.95	9.4	7.0	53.8	49.6
Cream <u>3/</u>	.20	.16	.8	.6	4.7	4.1
Frozen desserts <u>4/</u>	.54	.51	2.2	1.8	12.7	13.0
Evaporated milk	.15	.10	.6	.4	3.5	2.5
Nonfat dry milk	.02	.05	.1	.2	.5	1.3
Total cheese	.51	.62	2.1	2.2	12.0	15.8
Cottage	.12	.15	.5	.5	2.8	3.8
All other	.39	.47	1.6	1.7	9.2	12.0
Butter	.45	.30	1.8	1.1	10.6	7.6
Other dairy products <u>5/</u>	.04	.10	.2	.4	1.0	2.5
Value of dairy products <u>6/</u>	4.25	3.93	17.4	14.1	100.0	100.0
Value of non-dairy products	20.18	23.91	82.6	85.9		
Value of all foods used <u>7/</u>	24.43	27.84	100.0	100.0		

1/ Skim and lowfat milk. 2/ Whole milk, chocolate, and buttermilk. 3/ Includes half and half.
4/ Includes ice milk and sherbet. 5/ Includes cheese spreads. 6/ May not add due to rounding.
7/ Excludes expenditures for alcoholic beverages.

Household Food Consumption Survey, 1955 and 1965.

Table 18.--Selected dairy products and margarine: Per capita weekly consumption in households from all sources, spring (April-June), United States, 1948, 1955, and 1965

Item	Unit	1948	1955		1965	Percentage change, all households, 1955 to 1965
		Urban	Households		All	
		households	Urban	All	households	
Fresh fluid milk	Quarts	3.11	3.21	3.30	2.71	-17.9
Skim <u>1/</u>	do.	.02	.10	.09	.19	+111.1
Other fluid <u>2/</u>	do.	3.09	3.11	3.21	2.52	-21.5
Cream <u>3/</u>	do.	.07	.06	.06	.04	-33.3
Frozen desserts <u>4/</u>	do.	.20	.36	.33	.41	+24.2
Evaporated milk	Pounds	.45	.26	.29	.19	-34.5
Nonfat dry milk	do.	<u>5/</u>	.01	.02	.04	+100.0
Total cheese	do.	.28	.34	.32	.35	+9.4
Cottage	do.	.10	.15	.13	.15	+15.4
All other <u>6/</u>	do.	.18	.19	.19	.20	+5.3
Butter	do.	.22	.22	.20	.13	-35.0
Margarine	do.	.18	.20	.20	.24	+20.0

1/ Skim and lowfat milk.
2/ Whole milk, chocolate, and buttermilk.
3/ Includes half and half.
4/ Includes ice milk and sherbet.
5/ Less than 0.005 pound.
6/ Includes cheese spreads.

Household Food Consumption Survey, 1948, 1955, and 1965.

On the other hand, more of the money value of dairy products was accounted for by fluid skim milk, nonfat dry milk (directly used in the household), and cheese. The value of frozen desserts declined slightly, but they represented a larger proportion of the dairy product dollar in 1965 than in 1955.

Quantities Consumed Per Person

The quantities of individual dairy products consumed in households from all sources--purchased, home-produced, and donated--during a week in the spring of 1948, 1955, and 1965, are summarized in table 18. These data show a general downward trend in the per capita consumption of the higher-fat dairy products, and an increase in the lower-fat items. Changes were greater from 1955 to 1965 than in the earlier years. From 1948 to 1965, per capita consumption of fluid whole milk, cream, evaporated milk, and butter declined, while fluid skim milk, nonfat dry milk, total frozen desserts, cottage cheese, and all other cheese increased.

Among dairy products, nonfat dry milk and fluid skim milk registered the sharpest gains. The per capita consumption of all table fats (butter and margarine) remained fairly stable from 1948 to 1965. While butter use fell, margarine consumption increased sharply.

Consumption by Regions

As in the past, the per capita consumption of many dairy products in 1965 was lower in the South than in other regions (table 19). Persons in the South used less fluid milk, cream, cheese, and butter. But they consumed more nonfat dry milk and evaporated milk than people in other areas. These differences were generally associated with lower per capita incomes in the South, but problems of storage, transportation, and availability may also be factors in these consumption patterns. Lower prices for nonfat dry milk and evaporated milk and the longer keeping quality of evaporated milk likely contributed to higher use of these products in the South. Frozen desserts were an

exception to the South's generally lower dairy consumption. However, in 1965, per capita consumption of frozen desserts was highest in the North Central region. The Northeast and North Central regions used more fluid milk and butter per person than other areas. Persons in the West used the most fluid skim milk, cottage cheese, and cream.

Generally, the 1955 to 1965 changes in per capita consumption of various dairy products were similar nationally and in each of the 4 Census regions used in summarizing the survey--Northeast, North Central, South, and West. In all regions, use per person of fluid whole milk, evaporated milk, and butter declined. The decline in fluid whole milk was sharpest in the Western region. Butter use fell the most in the North Central region--from about 0.4 pound per person weekly in 1955 to less than 0.2 pound in 1965. This was equivalent to an annual drop of about 1 pound per person in the 10 year period.

Per capita consumption of fluid skim milk, nonfat dry milk, total cheese, and frozen desserts increased in all regions. Use of frozen desserts expanded rapidly in the South.

Margarine consumption per capita increased least in the Northeast, and most in the North Central region.

Consumption by Urbanization

In 1965, per capita consumption of some major dairy products--fluid whole milk, cream, frozen desserts, and butter--was higher in farm households, than in nonfarm households (table 19). However, urban families consumed more fluid skim milk and cheese per person than did rural non-farm and farm households. Margarine consumption was highest among urban persons and lowest for persons living on farms.

The data summarized in table 19 include the value of dairy products consumed from all sources. Most of the dairy products used on farms typically has been produced on the farm, rather than purchased

Table 19.--Selected dairy products and margarine: Per capita weekly consumption in all households, United States, spring (April-June), 1955 and 1965 ^{1/}

Item	Unit	By regions			By income groups					By urbanizations				
		North- east	North Central	South	West	Under \$3,000	\$3,000- \$4,999	\$5,000- \$7,999	\$8,000- \$9,999	\$10,000 and over	Urban	Non- farm	Rural	
1955														
Fresh fluid milk	Quarts	3.428	3.706	2.787	3.447	2.921	3.362	3.571	3.528	3.802	3.220	3.057	4.205	
Skim 4/	do.	.094	.115	.031	.171	.052	.061	.113	.183	.393	.102	.055	.105	
Other fluid 5/	do.	3.334	3.591	2.756	3.276	2.869	3.301	3.458	3.345	3.409	3.118	3.002	4.100	
Cream 6/	do.	.047	.094	.020	.105	.040	.042	.067	.097	.140	.061	.037	.100	
Frozen desserts 7/	do.	.307	.420	.263	.378	.225	.343	.376	.402	.450	.349	.311	.325	
Evaporated milk	Pounds	.219	.157	.457	.356	.376	.320	.228	.142	.113	.259	.424	.167	
Nonfat dry milk	do.	.016	.009	.023	.022	.022	.015	.011	.019	.016	.013	.023	.020	
Total cheese	do.	.334	.380	.207	.432	.241	.300	.356	.411	.428	.339	.305	.255	
Cottage	do.	.112	.199	.051	.229	.080	.117	.157	.197	.206	.147	.115	.096	
All other 8/	do.	.222	.181	.156	.203	.161	.183	.199	.214	.222	.192	.190	.159	
Butter	do.	.241	.402	.131	.184	.175	.172	.207	.286	.341	.201	.170	.275	
Margarine	do.	.191	.145	.193	.251	.183	.214	.209	.181	.168	.198	.228	.130	
1965														
Fresh fluid milk	Quarts	2.939	2.985	2.308	2.645	2.105	2.484	2.877	3.008	3.091	2.706	2.631	2.940	
Skim 4/	do.	.140	.254	.101	.332	.101	.103	.150	.244	.394	.212	.149	.100	
Other fluid 5/	do.	2.799	2.731	2.207	2.313	2.004	2.381	2.677	2.764	2.697	2.494	2.482	2.840	
Cream 6/	do.	.037	.053	.024	.067	.031	.032	.039	.042	.063	.041	.031	.068	
Frozen desserts 7/	do.	.393	.435	.412	.405	.311	.357	.421	.458	.540	.402	.426	.456	
Evaporated milk	Pounds	.162	.089	.296	.195	.331	.271	.156	.106	.088	.174	.229	.178	
Nonfat dry milk	do.	.037	.018	.058	.051	.086	.038	.036	.025	.019	.035	.060	.035	
Total cheese	do.	.363	.405	.259	.441	.276	.277	.368	.403	.424	.361	.343	.306	
Cottage	do.	.128	.189	.079	.233	.117	.106	.153	.170	.179	.149	.140	.130	
All other 8/	do.	.235	.216	.180	.208	.159	.171	.215	.233	.245	.212	.203	.176	
Butter	do.	.175	.163	.064	.112	.089	.091	.131	.144	.179	.127	.111	.168	
Margarine	do.	.201	.237	.265	.268	.249	.257	.242	.242	.215	.237	.266	.221	

^{1/} Data on consumption by income groups not completely comparable between 1955 and 1965. In the 1955 survey, use by income groups was only for households of 2 or more persons, while the 1965 survey included all households regardless of size. ^{2/} In 1965, \$5,000-\$6,999.

^{3/} In 1965, \$7,000-\$9,999. ^{4/} Skim and lowfat milk. ^{5/} Mostly whole milk, but includes chocolate and buttermilk. ^{6/} Includes half and half. ^{7/} Includes ice milk and sherbets. ^{8/} Includes cheese spreads.

Household Food Consumption Survey 1955 and 1965.

However, the proportion of farm families using purchased dairy products has increased in the past decade. Fewer farms are keeping dairy cows to provide milk and other dairy products for home use. The Census of Agriculture reported in 1964 only 36 percent of all farms had milk cows, compared with 61 percent in 1954. The number of farms separating cream has declined sharply in recent years, and therefore less cream and butter is home produced.

Since 1955, the changing pattern of dairy product consumption in the United States has generally been similar in all urbanizations. However, there were some exceptions. Though fluid whole milk use per person fell in all urbanizations, the largest decline was among persons living on farms. Use of butter also declined more in farm than urban households. Per capita consumption of fluid skim milk declined slightly on farms, while it increased sharply among urban and rural non-farm families. The reduction in fluid skim milk among farm households may be due to the declining farm-separation of cream for sale. This decline makes home-produced skim milk and cream available for use in fewer farm households. From 1955 to 1965, evaporated milk use increased somewhat in farm households, while dropping substantially in non-farm households. The per capita use of nonfat dry milk has gained more rapidly in urban and rural non-farm households than on farms.

Consumption by Income Class

The preliminary report on the 1965 survey also reports the consumption of dairy products in all households in the United States by family income levels (table 19). As incomes increased, the per capita use of most dairy products also increased. Evaporated milk and nonfat dry milk were exceptions to this general pattern. Per capita use of nonfat dry milk was especially high among lower income families, probably due to Federal Welfare donations to low-income recipients, as well as the low cost of reconstituted nonfat dry milk as a beverage.

Per capita consumption of whole milk increased sharply between the low and middle income families, but leveled off between middle and high income households. Use per person actually declined slightly for the \$10,000 and over income group. Fluid skim milk consumption per person increased gradually from low to middle income families, and then rose sharply from middle to high income families. Per capita use of ice cream, butter, cottage cheese, and other cheese also gained as incomes increased. Margarine consumption per person was fairly uniform among income groups, except for a slight decline among higher income families.

The number and age of children in the family may be as important a factor as income in explaining these differences in fluid milk consumption. Data on the composition of families by income groups will be available in later reports.

Between 1955 and 1965, fluid whole milk consumption per person declined in all income groups, with the largest drop among low income families. Use of nonfat dry milk and fluid skim milk in homes increased most in lower income groups, probably because these items are usually lower cost sources of fluid milk. The decline in per capita use of cream was largest among higher income families. Frozen dessert use expanded most rapidly in the low and high income groups. Cottage cheese consumption per person fell among all income groups, except those with incomes under \$3,000. On the other hand, use per person of other types of cheese increased in the middle and higher income groups, but declined among low income families. Butter consumption fell and margarine use per capita increased quite evenly in all income groups.

Comparison of Consumption Levels

Data on the per capita consumption of dairy products, both on a commercial sales and total civilian use basis, are reported regularly in the Dairy Situation. These per capita consumption figures are based on the use of dairy products in institutions, schools, and restaurants, as well as in homes. Also included are

dairy products used in other products, such as nonfat dry milk and butter used in bakery products. The Household Food Consumption survey reports only fluid milk and dairy products entering the home as such, excluding those dairy products consumed as ingredients in other products.

How well dairy product consumption levels in the spring are representative of annual consumption levels is difficult to know. The per capita consumption index of dairy products in April-June 1965 was slightly higher than the annual 1965 average. Recognizing that differences exist, the 1965 per capita consumption of dairy products in households expanded to an annual basis is compared with total civilian annual consumption in table 20.

Per capita household use of most dairy products as reported in the Food Consumption survey has generally shown similar changes from 1955 to 1965 as has total per capita civilian consumption. However, there were several differences in the absolute per capita consumption levels, which may be at least partly due to how closely the spring consumption levels approximate the annual level. Apparent per capita consumption in households for several dairy products--evaporated milk, cottage cheese, all other cheese, and butter--was higher than total

civilian per capita consumption. The consumption level for fluid milk and cream was generally lower in homes in 1965 than total per capita civilian consumption. Higher than average per capita use in nursing homes, hospitals, and schools may have helped raise the total civilian use. While total use per person of nonfat dry milk increased only about 2 percent during this 10-year period, the home use of nonfat milk more than doubled. The increased household use reflects the development of instantized powdered milk for reconstitution into beverage form, and also the general decline in nonfat dry milk used in the bakery industry. Of the 5.6 pounds nonfat dry milk used per person in 1965, about 2 pounds was consumed directly in households, according to the household survey.

The data on dairy product consumption from the Household Food Consumption survey will be further analyzed when more detail becomes available. It will then be possible to show more detailed consumption data on the various fluid milk products, frozen desserts, and types of cheese. Also, the data on consumption of dairy products during the 4 seasons of the year will not only make it possible to show seasonal variation in consumption, but will make the household consumption data more comparable with the annual per capita consumption data reported in the Dairy Situation.

Table 20.--Selected dairy products: Civilian annual per capita consumption, total and in households, United States, 1965 with comparisons

Item	:Annual 1965 per capita consumption:		:Percentage change, 1955-65	
	: Households <u>1/</u>	: Total <u>2/</u>	: Households	: Total
	: Pounds	: Pounds	: Percent	: Percent
Fresh fluid milk <u>3/</u>	303	305	-18	-9
Cream <u>4/</u>	4.4	7.5	-33	-24
Evaporated milk	9.9	8.4	-35	-41
Nonfat dry milk	2.1	5.6	+100	+2
Frozen desserts	26.5	28.1	+24	+20
Cottage cheese	7.8	4.6	+15	+18
All other cheese <u>5/</u>	10.4	9.5	+5	+20
Butter	6.8	6.4	-35	-29

1/ As reported from the 1965 Food Consumption Survey, includes only products used directly in homes. Weekly per capita consumption expanded to annual level. 2/ Includes products used in restaurants, schools, and institutions, as well as those used in homes. 3/ Includes product weight of whole, skim, chocolate, and buttermilk.

4/ Includes half and half. 5/ Includes cheese spreads.

Household Food Consumption Survey 1965 and the Dairy Situation.

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DAIRY OUTLOOK CHARTS

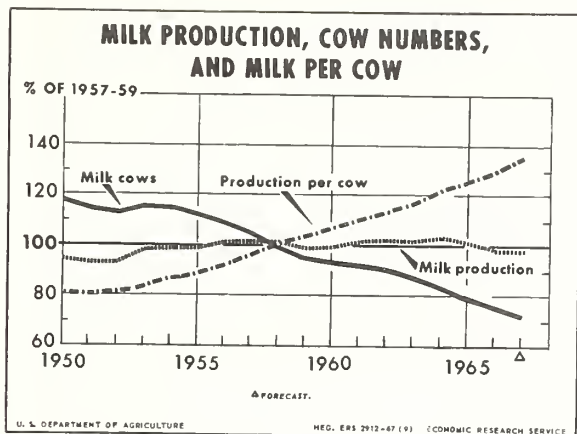


Figure 1

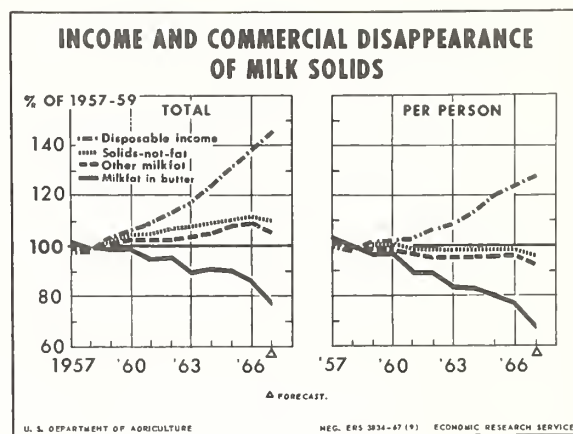


Figure 4

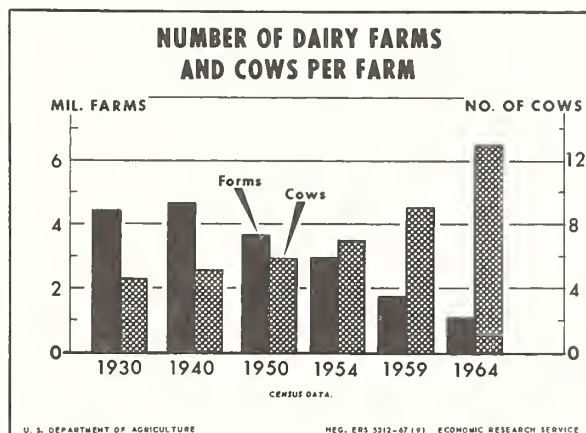


Figure 2

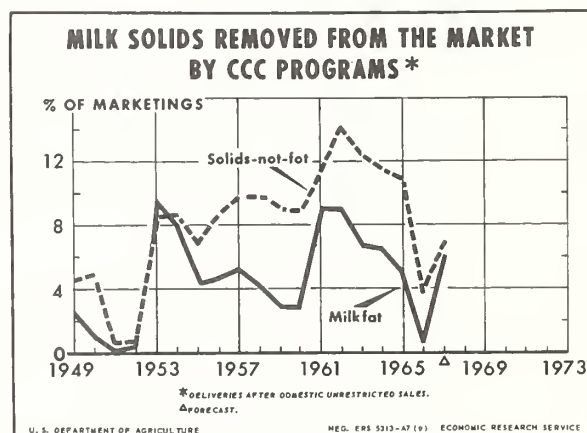


Figure 5

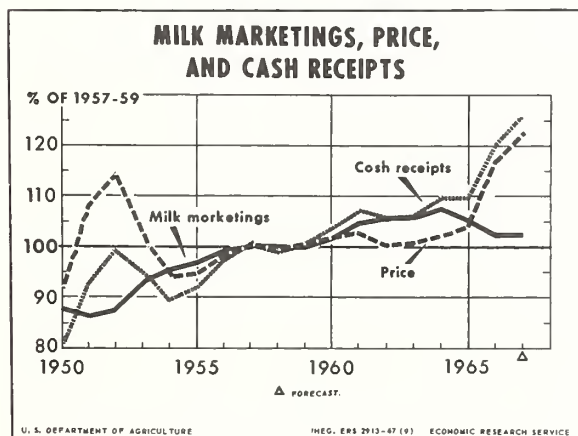


Figure 3

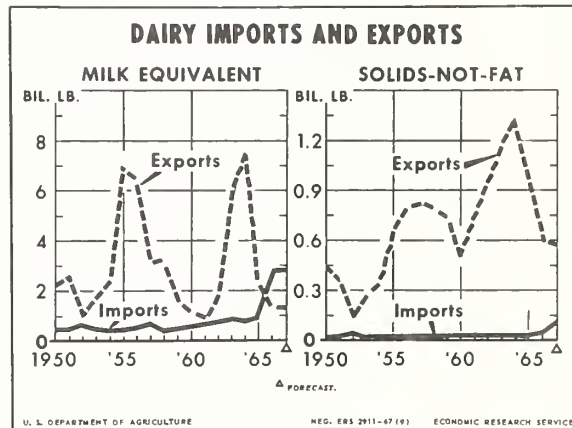


Figure 6

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DS-318

NOVEMBER 1967

A NATIONAL FOOD BUDGET -- CAN WE MAKE IT WORK? NOV 14 1967

It is always a pleasure to be in the company of ^{DIVISION OF ACQUISITIONS} courageous men.

I use the word advisedly for many of you -- including the speaker -- will hazard prophesies during the next three days. This takes courage, for as Samuel Butler once said:

"The New Jerusalem, when it comes, will probably be found to resemble the old in that it will stone its prophets freely."

Josh Billings was even more pointed:

"Don't never prophesy," he said, "for if you prophesy wrong, nobody will forget it, and if you prophesy right, nobody will remember it."

With these admonitions, let us proceed.

Saturday I returned to the United States from the 14th conference of the Food and Agriculture Organization of the United Nations in Rome.

This meeting brought home most forcibly the close, inseparable relationship between agriculture in the United States and the needs of a hungry world. We live in a world of compressed space, one in which it is no longer possible to separate agricultural policy into tidy compartments -- label them

Address by Secretary of Agriculture Orville L. Freeman, November 13, 1967, 9:45 a.m. EST, to the 45th Annual National Agricultural Outlook Conference, Washington, D. C.

"domestic farm programs," "foreign aid," "commercial sales" -- and deal with them as separate entities.

All are inseparable parts of the whole. There is a word for this -- synergism -- meaning, roughly, that the whole is greater than the sum of the separate parts. This word describes my own thinking on a national/world food budget, and the agricultural policy that can make it a reality. I will have more to say on this in a few moments.

The FAO meeting also allowed me to view American agriculture through the eyes of others ... in this case, agricultural experts from nearly every nation on the globe. It was a stimulating and thought-provoking experience, one that sharply etched both the opportunity and the peril facing American agriculture in a revolutionary era.

The challenge is no less than the cause of peace itself. American agriculture has the opportunity to make a major contribution to world peace by providing food to hundreds of millions of people around the globe while -- at the same time -- it exports the technology so desperately needed by the poorer nations to feed themselves. We must do both, for unless we do, the War on Hunger will end in ignominious surrender to famine. Unless we win that War, our children will inherit a world wracked by chaos and misery.

This is the challenge, and, like most great endeavors, it is fraught with peril. For unless we can maintain the economic health of our own agriculture, there is little chance that this Nation can meet the challenges ahead.

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You are agricultural professionals, intimately aware of these challenges, and the complicated interplay of domestic farm policy, world trade and world economic development. You know, far better than most, that there are no simple answers, no instant solutions, to the problems facing this Nation and the world. This is why I am here today, to continue a fruitful dialogue the Department began some 45 years ago, and one in which I have participated since 1961.

In 1961, shortly after assuming my present job, many of us in this room began working toward the goal of a national food budget, an agricultural policy that would allow us to produce what we needed while avoiding continued buildup of the surpluses that had depressed farm prices and income during the fifties. In addition, the policy had to prevent equally disastrous shortages that would cost us foreign commercial markets and blunt our leadership in the War on Hunger.

This was our stated goal. At the time I pointed out that I had no magic formula to accomplish it -- to bring into balance demand and supply so that we could meet our objectives at home and abroad. But I did express confidence that -- given some time, determination and elbow grease -- we could develop the necessary machinery to do the job.

In the six years since 1961, by dint of trial and error, with considerable political strife and many close votes in the Congress, I believe we have developed the necessary machinery to make a national food budget a reality. It is now possible for the United States, as a matter of national policy and with the cooperation of government, farmers and the trade -- to:

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- avoid the boom and bust of surplus or scarcity
- produce the kind of agricultural products we need, in the right amounts.

This year, 1967, marks the beginning of the third year of the Food and Agriculture Act of 1965, one half of the machinery that makes possible our goal of a national food budget. The other half, Food for Freedom, is now in its second year. Thus, passage of the Food and Agriculture Act of 1965 and Food for Freedom in 1966 has made possible a true national food budget for the sixties, seventies, and beyond.

But the mere fact the machinery exists doesn't automatically mean success. That depends on the wisdom and leadership we apply to make the gears go round. Whether we have these crucial elements remains to be seen. Some groups are throwing sand in the gears right now. The concept of a national food budget is being severely tested -- if not threatened -- as we meet here at this historic Outlook Conference.

The Food and Agriculture Act of 1965 (which I'll call the "Act") and the Food for Freedom Program (which I'll call the "Program," hereafter), are twins. They complement each other. Neither can be effective in isolation, nor can a true national food budget be viable unless the Act and Program are closely coordinated.

The Act, of course, is designed to prevent surplus or scarcity through a working balance between supply and demand, one which will result in farm prices at as high a level as possible consistent with remaining competitive

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in world markets. If world prices are too low to return parity of income prices, the difference is to be made up to the farmer in direct payments.

These payments, in turn, can be used when necessary to withdraw acreage from production to avoid surpluses.

The Act traces its immediate lineage to the five major commodity bills enacted in the sixties, and its remote ancestry to the New Deal legislation of the thirties.

But it is fundamentally different from its progenitors. One of the single most outstanding differences between this legislation and that which preceded it is a recognition that stabilization of market supplies of basic commodities is a continuing -- rather than a temporary -- problem.

This was evident in the authorization of a four-year bill, rather than a one or two-year bill, as in earlier postwar legislation.

And there are other fundamental differences: The Food and Agriculture Act of 1965 provides for price supports at near-world levels for the major crops, with the stabilization and acreage adjustment programs necessary to avoid surpluses. This is in sharp contrast to earlier legislation with prices supported at higher than world levels.

How much acreage is to be withheld depends upon world production, domestic needs, dollar sales and the needs of aid-recipient countries -- for the Secretary, under P. L. 480, is to make food available to those needy nations that act in good faith to meet the self-help requirements of the Program.

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This is very different from the way Food for Peace operated for more than a decade in the past, and marks another departure from past programs. Under earlier P. L. 480 legislation, foods moving in aid programs had to be in surplus. This requirement was removed in the 1966 Program.

Removed in the 1965 Act (and earlier) were the mandatory acreage restrictions and the large export subsidies that accompanied high-level price supports. Adjustment programs for almost all the major crops are now on a voluntary basis; government payments are used to achieve adjustments, export subsidies are minimized.

Thus, the 1965 Act gives the Secretary some flexibility in adjusting annual programs as necessary to meet both commercial market and food aid needs at stable prices. At the same time, United States producers can be protected against sharp price and income drops if supplies exceed market needs for short periods.

There are still those -- an influential and sizeable minority -- who deny the necessity for a National Food Budget. They deny the necessity for farm programs and would abolish them. But to do this, in my considered judgment, would drastically affect our domestic agriculture and commercial and aid shipments because of the close interrelationship among them.

The basic disagreement, I think, is between those who would put their faith in random conduct of our affairs, versus those who would seek to shape events through conscious action.

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Certainly most of the problems which precipitated farm programs in the first place have not changed. American farmers still have the capacity to produce more than the market can absorb at a fair price to them. Our experience this year, with production up substantially in almost every commodity, ought to drive home this point dramatically once again.

Other things haven't changed either. No one has discovered, over the past 37 years, how to control the weather and its impact on production. World trade is still an absolute necessity to a healthy U.S. agricultural plant, and world prices cannot be established by fiat. Although we often hear that "farm prices are made in Washington," in fact, they are also determined in Ottawa, the Chicago pit, Canberra, Buenos Aires, and a hundred other spots around the globe.

Finally, of course, the relentless march of agricultural technology continues unabated, with its advances immediately and widely diffused throughout the developed agricultural world.

These are very fundamental conditions that existed at least four decades ago, continued seven years ago, when I became Secretary, and still exist today. According to every indicator I have studied, they will still exist tomorrow and for a long time to come.

What I have called the "New Era" farm programs were designed to allow farmers to cope with these bedrock problems; to allow them to participate in the shaping of their own destiny through the mechanism of government, just as Food for Freedom was designed to meet the bed-rock problems of a hungry world which needs desperately to develop its agriculture and its economy.

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The New Era programs, in a short seven-year period, have made notable progress. In contrast to the close of the 1960-61 crop year, when 1.4 billion bushels of wheat and 85 million tons of feed grains were stockpiled, only about 500 million bushels of wheat and 40 to 45 million tons of feed grains are expected at the end of this marketing year. Compared to the peak CCC years of 1956 and 1959, investment in farm commodities is down \$5 billion this year, and down almost \$2 billion from last year. The nasty label of "surplus and subsidy" has been largely scrubbed from the farmer's back.

U.S. products are moving freely in world trade, at competitive prices. Compared to fiscal 1961, total agricultural exports were up nearly 40 percent -- to \$6.8 billion -- in fiscal 1967, and sales for dollars were \$5.2 billion, a gain of more than 50 percent over 1961 and higher than our total agricultural exports -- commercial and concessional combined -- in any year prior to 1964.

The U.S. now accounts for 37 percent of world wheat trade, about half of world feed grain trade, and over 90 percent of world soybean trade.

Favorable world weather and near-record crops in virtually every nation for two years have had their effect on our exports, and on domestic farm income. But this year and last have been exceptional weather years worldwide, not likely to continue uninterrupted.

Last year (1966) gross farm income set an all-time record, as did net income per U.S. farm. National net farm income climbed to \$16.4 billion

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the second highest in the history of the United States, a 40 percent rise over 1960 and 18 percent higher than a year previous.

This year, net farm income will decline some 10 percent from last year's high, although it will still be substantially above levels of most years of the 1950-1960 decade.

This, of course, is terribly disappointing, and no one is more disappointed than the Secretary of Agriculture. As Mr. Dooley once said to his friend Hinnissey:

"When you build your triumphal arch to your conquering hero, Hinnissey, build it out of bricks so the people will have something convenient to throw at him as he passes through."

The bricks hurt, gentlemen.

What has taken place over the past year is ironic -- but we have always recognized the danger. A year ago the evidence on world food production and supplies was most unfavorable. The monsoons in India were failing for the second successive year, short crops in the Communist countries had required large purchases from Western exporters. The disappearance of excess stocks in the United States and an unfavorable wheat yield outlook contributed to the uncertainty. The world was clearly in a short grain supply position.

As a result, after a careful assessment of probable world needs in the 18 months ahead, the national wheat acreage allotments for the U.S.

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1967 crop were increased sharply. Action was taken to increase acreage in feed grains and soybeans as well.

Then within a few weeks after these decisions were made, the world outlook changed sharply with favorable prospects in almost every major grain-producing country.

Canada, Australia and the Soviet Union harvested record wheat crops. Argentina and Western Europe harvested good crops of both wheat and feed grains. Feed grain harvests in Eastern Europe were good and a few months later South Africa produced a record corn crop.

In the U.S. we have a record grain crop in 1967, with an overall increase of from 4 to 5 percent. The 1967 feed grain crop is up 12 percent, wheat crop up 19 percent, and rice and soybeans are up 7 percent over 1966. Cotton, on the other hand, is down 16 percent and there's been a substantial drop in the 1967 fruit crop.

Although demand expansion and somewhat lower prices will lead to some increased domestic use -- particularly in feed grains and soybeans -- as well as larger exports, some increase in carryover stocks will occur for these two commodities, as well as wheat.

The cotton crop, down some $5\frac{1}{2}$ million bales below expected utilization this year, may well reduce next year's carryover to under 7 million bales, compared to $12\frac{1}{2}$ million bales this year.

Until milk utilization prospects become clearer, it is difficult to make production and price projections. The five percent drop in commercial

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utilization this year is the greatest in U.S. dairy industry history. If any of you have a theory as to the "why" of this situation, I would like to hear from you. As you know, I am deeply concerned over the low milk prices farmers are receiving. Yet consumption has dropped while our population continues to climb.

This, in short, is the situation in the major commodities. Now, what are we doing about it?

As I said earlier, we do not yet have control of the weather, nor do we even have an absolutely foolproof system of predicting it. As a result, we realize that our best estimates of production may, at times, miss the mark. Someday, with a global system of satellite stations reporting daily on crop conditions around the world, we will do better. But for now we have to work here on earth to refine our forecasting and to take action -- based on the best information available -- to bring supply and demand into closer balance.

This is what we're doing this year with our New Era farm programs. In contrast to a year ago, the world grain position is strong. Therefore, we are acting to tailor supply to demand in order to increase farm prices and prevent costly surpluses.

The first of these adjustments, for wheat, was announced on July 7. The 1968 program should reduce the harvested land by some 5 million acres below this year's level.

This will assure us an ample supply of wheat to meet all needs, foreign and domestic, commercial and concessional. It should result in

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total wheat income for 1968, some 500 to 600 million dollars higher than in the years prior to the Food and Agriculture Act of 1965.

Two weeks ago last Friday, I made a similar announcement for the feed grains. Our target is to divert about 30 million acres from production -- some 10 million more than in 1967 -- in order to change this year's 2 to 3 percent overproduction to a 2 to 3 percent underproduction in 1968.

Fulfilling this target, of course, depends upon a great many factors, not the least of which is grower participation. With good cooperation, we estimate producers will receive more than \$400 million more feed grain income than in 1967, and nearly \$200 million more than they did in 1966, which was an all-time record income year.

We're also making changes in cotton.

When the four-year cotton program authorized by the Food and Agriculture Act of 1965 went into operation, we had an all-time high carryover of 16.6 million bales of upland cotton. We wanted to reduce this to normal carryover levels, to improve producer income, keep cotton competitive and reduce government expenditures.

We had extremely high farmer participation in both 1966 and 1967 programs. This -- coupled with an abnormal weather cycle and insect infestation -- accomplished the supply adjustment in two years rather than the expected four. At the same time, cotton has been kept competitive with other fibers, farm income has improved and, as you also know, government expenses have been materially reduced.

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The national marketing quota for cotton has been increased to 16.1 million bales, to encourage more production of the medium and longer-staple cottons that are in highest demand. With the new cotton promotion program now manned and getting underway, the outlook for producers is looking up.

I have gone into some detail on our recent actions for this reason: I feel that our programs, domestic and Food for Freedom alike, are in a critical period in a number of ways. It is of greatest importance that they be more completely understood. In contrast to 1961 through 1966, a period of acreage reductions and stock drawdowns, 1967 marked a turn-around point. Modest rebuilding of stocks was thought to be necessary, for with surpluses eliminated we are operating our programs without the cushion of security those stocks provided. For those who don't follow world conditions closely, such a turn-around may be hard to understand -- especially when unexpected weather intervenes and we are forced to reverse field and again reduce acreage.

The market has been jumpy for over a year. In my opinion, it over-reacted to last year's rumors of shortages and over-reacted again this year, when supplies are ample, but not burdensome.

Clear understanding is vital if we are to achieve a workable national food budget. So is improvement. These are two areas in which I solicit your help and that of your colleagues.

I am most anxious to receive your suggestions for strengthening our present programs to make them more effective. I had hoped to be able

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to discuss such an action today -- the Purcell bill for strategic reserves, that would have enabled us to raise the incomes of grain and livestock producers in 1968. Unfortunately, this legislation was killed in a subcommittee of the House Agriculture Committee two weeks ago.

It has been evident for some time that there is a limit to the amount of grains the commercial trade will carry without forcing prices down. Millers and exporters are naturally reluctant to buy and hold grain when bumper crops might lead to lower prices. It is equally evident that there are limits to what the present New Era voluntary farm programs can do in tightening down over-supplies, the proximate cause of recent price slumps. Obviously we can't take a chance of running out of grain completely.

Had the Purcell bill been enacted, in the future the Secretary of Agriculture could have adjusted annual supplies more closely to market needs -- with resultant stronger prices for the farmer and with no danger of shortage for domestic consumers or overseas' markets. Both must concern him now. In bumper crop years the government would have been able to buy grain, firming up prices; in short years, supplies could have been sold under the most carefully prescribed conditions. It would have been another valuable tool to make our national food budget system work effectively.

Unfortunately, it was voted down. The statements of those who killed it make it clear that partisan politics, rather than the welfare of American farmers, carried the day.

If the bill had passed, I believe it would have strengthened market prices not less than 10 cents per bushel for wheat and feed grains,

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resulting in from \$300 to \$500 million in additional income for farmers. It is significant that, upon its defeat, the wheat market reacted sharply downward.

I hope that every farmer in the United States noted this partisan action and will remember it, for the negative vote has the widest implications.

On March 16 of this year, a bill was introduced to abolish price supports, acreage allotments, and base acreages for wheat and feed grains -- in effect, to abolish the present programs altogether. Since this time, 20 additional bills, identical or virtually identical to this bill, have been introduced. Clearly the enemies of farm programs are poised to strike.

At the time the wheat and feed grain programs expire, around the end of 1969, so do the wool payment program, the dairy milk base plan for federal order markets, cropland adjustment, and some provisions covering cotton diversion and price support payments.

Anyone who thinks these other programs will stand if the wheat and feed grain programs are abolished is, I believe, badly mistaken. They won't, and this goes for the rice, tobacco, and several others as well.

And so the classic choice facing us next year and the year after, is between workable programs and no programs at all, with the deepest implications for farm income, commercial sales and Food for Freedom.

I don't think we should seriously pursue the chimera of a return to mandatory programs. It is true that if we had them, they would cost far

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less than the present voluntary programs, with strict controls on a bushel, bale, and poundage basis. But both the Congress in 1962, and farmers, in 1963, have rejected this approach. As a practical matter, for most commodities, it's a dead issue.

So there aren't three choices ahead, there are only two.

Most of you are familiar, I'm sure, with the recent study by Dr. Wilcox and his colleagues titled "Farm Programs Needs, 1968-70," and so I won't repeat it in detail. Its main findings point to an approximate one-third drop in net farm income in the absence of support and diversion programs for wheat and feed grains.

I'm sure you're equally familiar with the study done by the Center for Agricultural and Economic Development at Iowa State University upon commission by the Food and Fiber Commission. This report says that by 1980, in the absence of programs, wheat would sell for \$1.27 a bushel with no certificates, corn at 75 cents a bushel with no payments, cotton at 17 cents with no payments, and soybeans for around \$1.23 a bushel.

I have seen no serious refutation of these findings, but there are a great many who feel that, somehow, we can find our salvation in an unlimited overseas concessional market. Unfortunately, this isn't true.

First of all, the amount of food that can move in aid programs is limited by several very practical factors. These include the ability of the developing nations to handle such food -- dock, storage and distribution facilities -- the amount that can be absorbed without complete dis-

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ruption of their own agricultural development, and the extent to which political leaders in these nations will permit their countries to become dependent on U.S. food.

On agricultural development rests all subsequent economic development in the less-developed nations. The Congress wisely recognized this basic truth when they wrote self-help requirements into the new Food for Freedom legislation, making it very clear that aid must help -- not hinder -- development. Hence, food aid must be used with skill and economic understanding as well as compassion.

Second, the mirage of an unlimited overseas demand overlooks the findings of a recent USDA long-range study of the world food situation through 1980, one that showed more continuing world capacity to produce grain than effective world demand can absorb at stable prices. Strong competition in commercial markets will continue and so will the potential for overproduction, for a long time to come.

Some of you may disagree with my analysis this morning of the world and national agricultural situation, and the tools we have devised to deal with the problems besetting us. But few of you, I suspect, would minimize the magnitude of the problems themselves, or believe that blind change, slogans or dogma, are sufficient to meet and solve them.

And so I would close by impressing upon you, to the best of my ability, the strong sense of urgency I feel for the two years immediately ahead. In 1968 the Nation will make its decision on whether or not to ex-

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tend existing P.L. 480 legislation. In 1969 -- or perhaps in 1968 -- it will similarly determine the fate of the Food and Agriculture Act of 1965. Both are -- and will be -- under heavy attack. The President's position -- and my own -- are clear. We stand in support of these measures for the reasons I have listed this morning.

By using them, and by improving them, I am confident that we can meet both the Nation's obligations to its farmers and our obligations to a hungry world. In the debate that will rage in the next months and years, I would ask for your leadership -- that you separate the wheat from the chaff, the emotional from the intellectual, the fact from the fancy. If we do this, I am confident that a national food budget -- viable, workable, economic -- can and will be a reality. And as it does, the Nation will meet its responsibilities to its producers and to the world.

My fellow prophets, thank you.

USDA 3575-67

NATIONAL ECONOMIC SITUATION AND OUTLOOK FOR 1968

Talk by John W. Kendrick

Professor of Economics, The George Washington University;
Research Director, Total Investment Project,
at the Annual Agricultural Outlook Conference
Washington, D.C., 10:00 A.M., Monday, November 13, 1967

The economy in the latter half of 1967 provides a unique point of departure for an appraisal of the outlook for the year ahead. We have recently emerged from a major economic readjustment, involving a marked slowdown in growth, but not a recession in overall economic activity. Since mid-1967, there has been a renewed strong expansion starting from relatively high levels of employment and income, so that upward pressures on costs and prices have quickly re-emerged. Already the longest expansion in U.S. economic history as of this 81st month, the past two years have represented somewhat unsteady progress along a high-level growth path associated with an employment ratio of around 96 percent or better of the labor force.

As we approach the eighth year of expansion beginning February 1968, and the third of relatively full employment, we have no generally applicable historical precedents to help in mapping the contours of the terrain ahead. More importantly, our economic policy-makers will face the necessity of innovating and improvising as new problems arise in their efforts to stay on the growth tight-rope, without allowing major imbalances to develop.

Obviously, the course of the economy in 1968 will be influenced by Federal Government policies, and any projection involves assumptions as to probable policy actions, and reactions to conditions as they unfold. I assume first that the conflict in southeast Asia will continue without major escalation, and thus that planned increases in defense expenditures for this fiscal year will take place, but with a deceleration after mid-1968. I assume that the administration's proposed income tax surcharge will not pass Congress this year, but that it will be enacted fairly promptly during the first quarter of 1968 as evidence of renewed strong economic expansion piles up. Finally, I assume that the monetary authorities will sanction the tight credit situation and high interest rates that have developed in recent months, and promise to continue well into the first quarter 1968 reflecting heavy Treasury borrowing operations. After the first quarter, interest rates may ease somewhat as the tax surcharge takes effect, and as the pace of expansion possibly slows somewhat in the latter half of 1968.

Review of Economic Developments in 1967

Before presenting a systematic run-down of the outlook, I should like briefly to refresh your memories as to where we have been during the past year. Between the last quarter of 1966 and the second quarter of 1967, we experienced a significant economic readjustment marked by a small decline in private non-residential fixed investment and a huge drop of \$18 billion in the

seasonally adjusted annual rate of business inventory accumulation. Yet total gross national product rose by \$13 billion, and final demand by over \$30 billion, at annual rates, powered chiefly by continuing large gains in government purchases of goods and services, and personal consumption expenditures, with a small assist from a recovery in residential construction.

The readjustment is unlikely to go down in the annals of business cycles as a contraction. While real G.N.P. moved sidewise in the first quarter of 1967, there was an increase of more than one-half percent in the second quarter. Industrial production fell by a couple of percent, and the rate of utilization of manufacturing capacity dropped by over 5 percent as a continued high level of investment added to capacity by 3 percent or so in the half-year. The overall unemployment rate inched up only fractionally. There was a slight decline in wholesale prices reflecting the significant drop in average prices of farm products after September 1966 and a horizontal movement of industrial commodity prices during the first half, 1967. The consumer price index, however, continued to rise during the first half at an annual rate of around 2 percent, a bit less than between 1965 and 1966. Labor costs per unit of output also continued the upward movement begun in 1966, reflecting some acceleration in wage-rate advances in 1966 and only a slight deceleration in the first half of 1967, accompanied by a marked slow-down in productivity advance. More significantly, the ratio of price to unit labor cost in manufacturing, and in the private economy as a whole, began falling in the latter half of 1966 and on into 1967. This was associated with a leveling of total corporate profits in 1966, and a modest decline in the first half of 1967. The decline in profit margins on sales and invested capital was more pronounced, of course, and undoubtedly was a factor in the cuts in plant and equipment spending plans for 1967. Also influential was the extreme monetary stringency in the latter part of 1966. Aided by Federal Government fiscal measures, a reversal of Federal Reserve Board restraining policies, and the decline in business in 1967, short-term interest rates fell significantly during the first half of this year. Long-term bond yields declined moderately, but were already beginning to strengthen before mid-year.

I believe it is fair to say that if there had not been the \$8 billion rise in the annual rate of Federal expenditures during the first half of 1967, the readjustment might well have developed into a full-fledged contraction. But as it was, by last summer it became apparent that the balance of economic forces was pointing towards renewed expansion. Preliminary estimates for the third quarter reveal that the decline in inventory investment had come to an end; fixed business investment also reversed its decline; and residential construction continued to recover. Government purchases at all levels rose; and personal consumption expenditures grew in line with disposable personal income. Of the \$15 billion increase in G.N.P. at annual rates, or 2 percent, about half was real as the price deflator rose somewhat faster than in the previous half-year.

If there is a similar increase in the last quarter, which seems likely, G.N.P. for the year will end up around \$784 billion, a $5\frac{1}{2}$ percent increase over 1966 in current dollars, but only 2.6 percent in real terms--a rate significantly below the growth potential, as a result of the first half readjustments and strike effects in the second half.

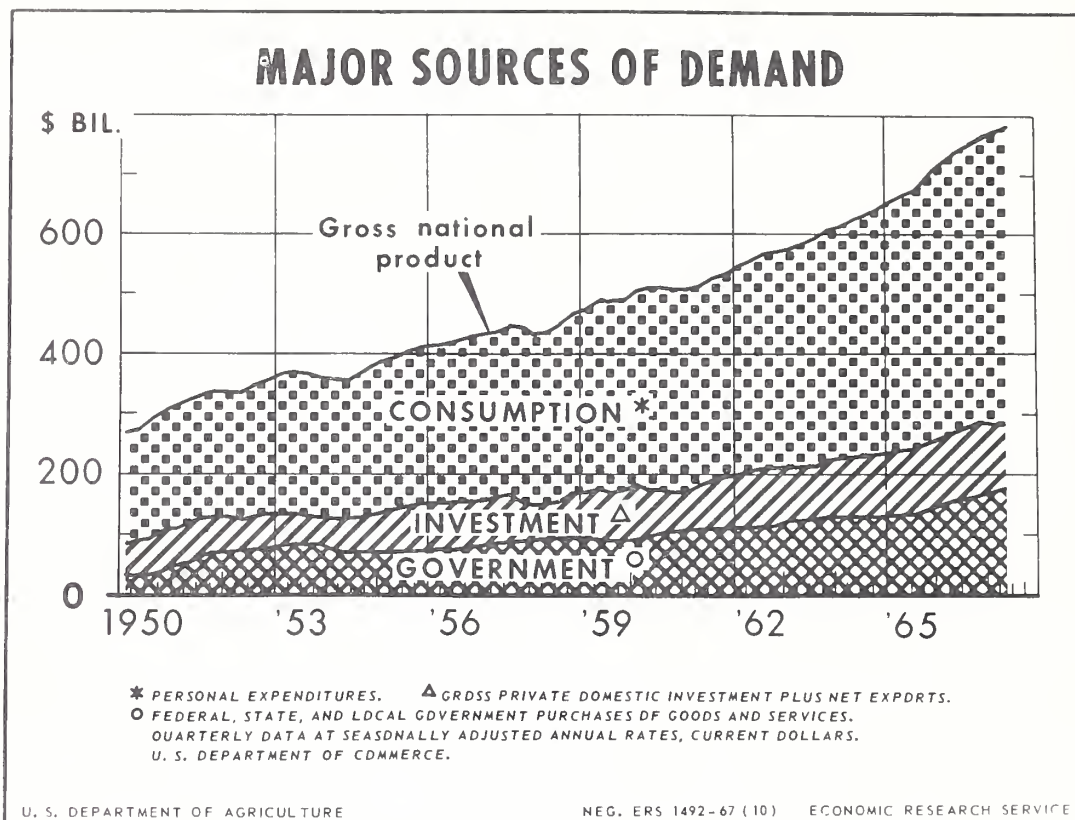
The Outlook for 1968, by Component

In looking ahead, it is convenient to proceed in terms of major G.N.P. components and related variables. Then we shall summarize the overall outlook.

To start with the easiest component to project, there is little doubt but what state and local government purchases will continue their strong and steady growth--adding around \$9 billion in 1968. It is an understatement to say that the prospective Federal purchases picture is less clear at this time. I am estimating that the net result of Congressional appropriations in the current session, and possible supplemental actions next year, will be to raise the figure of \$91.9 billion contained in the President's budget of last January by about \$3 billion. More than \$4 billion additional will be required by the conflict in Southeast Asia, but I assume that only a modest net offset will be provided by reductions in non-defense purchases of goods and services. The \$95 billion level implies an average increase, at annual rates, of around \$2 billion a quarter during fiscal year 1968. Further increases in national defense purchases are consistent with the recent leveling-off of military contract awards. But beyond mid-1968, barring further escalation in Southeast Asia, the increase in Federal purchases seems likely to slow down.

With the very substantial increase in total government purchases of around \$15 billion in 1968 over 1967, plus a multiplier effect on consumption of somewhat more, there would be respectable increase in G.N.P. even if investment outlays should not increase at all. Actually, it appears that the upward tilt to investment which appeared in the third quarter 1967 will continue into 1968. Before considering its magnitude, it will be useful to sketch in the outlook for profit margins, and financing, which are major influences on investment decisions.

With respect to profit margins, we noted the decline over the past year due chiefly to an increase in unit labor costs relative to prices. The U.A.W.-Ford and other recent labor contracts, in an environment of renewed aggregate demand increases and continuing tight labor markets, suggest that increases in average hourly labor compensation will be larger in 1968 than in 1967. But I also believe that increases in output per manhour will be larger than in 1967. The negative impact of declining utilization rates will be absent, and an accelerated growth in production will work in a positive direction, making possible more efficient use of the work-force which was hoarded in 1967. Roughly speaking, I would not expect unit labor costs to rise much, if any, faster in 1968 than in 1967. While average prices rose less than unit labor costs in 1967, it seems likely that the profit squeeze will ease in 1968, given a more buoyant



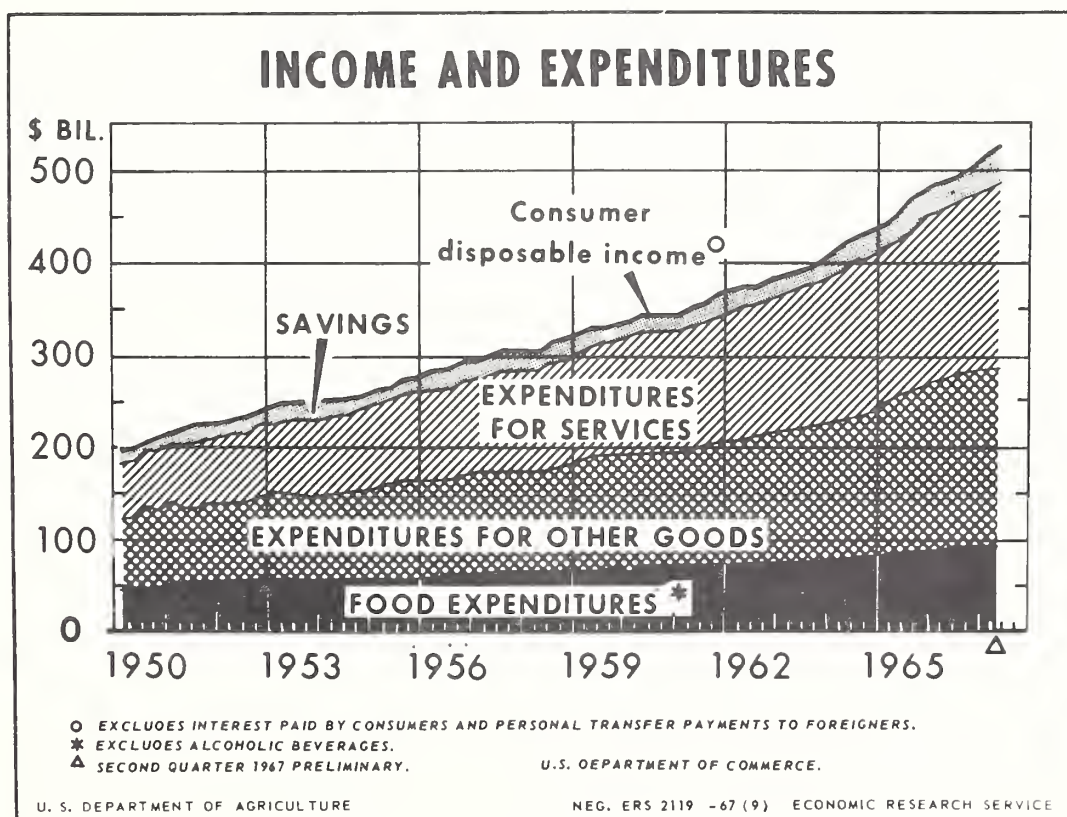
demand situation, and the lagged effects of a more than 8 percent annual rate of increase in the money supply so far this year. Thus, total profits before tax may well rise at least as fast as private G.N.P.

I have already referred to the recent increases in interest rates, and the possibility that financial markets may not be over the hump until after the first quarter 1968. A mild subsequent easing is expected by the treasurers of large corporations recently surveyed by the Federal Reserve Bank of Philadelphia. But interest rates will remain generally high next year. While this will be a small minus factor in business fixed investment plans, it will play a more important restraining role in the residential housing market.

Looking specifically at plant and equipment outlays, early surveys of businessmen's capital expenditure plans for 1968 point to an average increase of around 5 percent. While modest in comparison with the increases experienced for the several years prior to 1967, the anticipated rise seems reasonable in view of average utilization rates in manufacturing of less than 85 percent of capacity so far this year. The utilization rate is unlikely to rise much since recent investment will add as much to capacity as output seems likely to expand. Some observers point to accelerating wage-rates as stimulating demand for cost-reducing capital goods, but this influence will tend to be neutralized by rising capital-goods prices and interest rates. Further, enactment of a surtax on corporate income will reduce the after-tax rate of return. All in all, a renewal of the capital goods boom is unlikely in 1968, nor is it needed.

If inventory accumulation in the last quarter of 1967 remains low while sales continue to grow, total inventories at the end of the year should generally be in more or less viable proportion to sales. If this is the case, inventory investment is likely to rise moderately from close to 3 billion this year as commodity output continues to expand in 1968. It is possible that inventories will be accumulated more heavily in the first half of the year than in the second, as pipelines are refilled in the automobile industry, and as stocks are accumulated in excess of current needs by steel-users in anticipation of possible difficulties in the steel industry contract negotiations which begin in July.

With regard to residential construction, there can be no question as to the underlying strength of demand, given rising family formation and real incomes. As noted earlier, however, mortgage interest rates which are now pushing up towards 7 percent on average, will serve to restrain demand. Whereas the net flow of funds into savings and loan associations has been much larger this year than last, rebuilding liquidity positions, the flows may lessen as competition for loanable funds increases in coming months. On balance, the standard industry projection is for around 1.4 million starts in 1968 including almost 0.5 million multiple-unit residential structures. This level of starts, in conjunction with continued increase in construction costs, implies some further rise in value put-in-place from present levels, producing a year-to-year increase of \$2 to \$3 billion.



Net exports will depend largely on the relative strengths of economic expansion in the United States and in our chief customer-countries. The forecasts for resumption of economic expansion in Canada and western Europe are as optimistic as ours, and the outcome can hardly be predicted. It seems unlikely that net exports will differ substantially from the \$5 to 6 billion recorded this year, although total foreign trade will expand significantly.

What are the implications of the projected increases in investment and government purchases for disposable personal income (D.P.I.)--the chief determinant of consumption expenditures? When allowances are made for the income tax surcharge and increased social security contributions, offset in part by higher transfer payments, it appears that D.P.I. will rise by around $6\frac{1}{2}$ percent.

It is quite possible that personal outlays will rise by as much as D.P.I., with little or no increase in personal saving. Several recent surveys indicate an increasing inclination on the part of consuming units to loosen their pursestrings. If these attitudes continue, personal saving may well decline from nearly 7 percent of D.P.I. in 1967 to a figure of around 6 percent, which has been considered a more normal rate. The bulge in consumer outlays relative to D.P.I. would affect chiefly the major consumer durable goods categories.

Summary

The prospective increases in the various types of final demand add up to a gain in G.N.P. between 1967 and 1968 of between 50 and 60 billion dollars, in current prices. The range is perhaps too narrow to indicate adequately the probable margins of error in the projection, but it does span most of the forecasts being made this season, including two of the better known econometric models, and the mean projection made by members of the National Association of Business Economists. I believe the projection underlying Rex Daly's appraisal of the agricultural outlook falls within the indicated range.

The higher increase in G.N.P., which I consider more probable, represents an advance of around $7\frac{1}{2}$ percent. I would expect the price deflator to rise by somewhat more than 3 percent, compared with an increase of less than 3 percent from 1966 to 1967. Although I do not anticipate an accelerated rise of unit labor costs, a projection of stable profit margins in contrast to the profit squeeze of 1967 would imply a larger average price rise in 1968. Further, a modest rise in farm prices is in prospect (to borrow from Mr. Daly's projection) in contrast to the substantial decline from 1966 to 1967 which moderated the general price rise. This reversal would contribute to a greater increase in the general price level next year. Remember, too, that the G.N.P. deflator reflects changes in the average compensation of general government employees, which will be boosted by the prospective pay raises for Federal military and civilian personnel.

Real G.N.P. would thus expand by close to 4 percent. Granted that the productivity gain returns to the more normal 3 percent for the total economy (private plus public) in 1968, manhours worked would rise by around one percent. Since the labor force is likely to grow by around 2 percent, and since average hours worked may rise fractionally, my projection implies some increase in the unemployment rate from the 1967 figure of just under 4 percent.

When planning this paper I was tempted to make an explicit forecast that the first half of 1968 will be better than the second half, but then I discovered that last year's speaker had made this same prognostication for 1967! Also, I would not wish to seem unduly skeptical of the ability of our economic policymakers to find ways to promote growth. For example, if a slow-down appears imminent, more of the latent demand for new housing could be unleashed by appropriate measures. It may also be relevant that the elections in November will reinforce the already powerful pressures on our policy makers to keep the economy on the straight and narrow path of expansion throughout 1968.

THE AGRICULTURAL SITUATION AND OUTLOOK FOR 1968

Talk by Rex F. Daly*
Chairman, Outlook and Situation Board
at the National Agricultural Outlook Conference
Washington, D.C., 10:45 A.M., Monday, November 13, 1967

Record farm output and declining prices this year have reduced realized net farm income by about 10 percent from the near-record 1966 level. Looking to next year, supplies of farm products will continue large, but prices received in general are expected to strengthen from reduced levels this fall. Thus prospects for the coming year show promise of improvement whereas last year at this time we expected some decline from the high price and income levels of 1966.

Gross farm income, including larger cash receipts and some increase in Government payments to farmers, is expected to rise in 1968, perhaps by around a billion dollars. But production expenses will continue to increase and may largely offset any gains in gross income. Accordingly, net farm incomes again are not expected to rise in line with the anticipated general economic expansion just outlined by John Kendrick.

Supply, Price, and Income, 1967

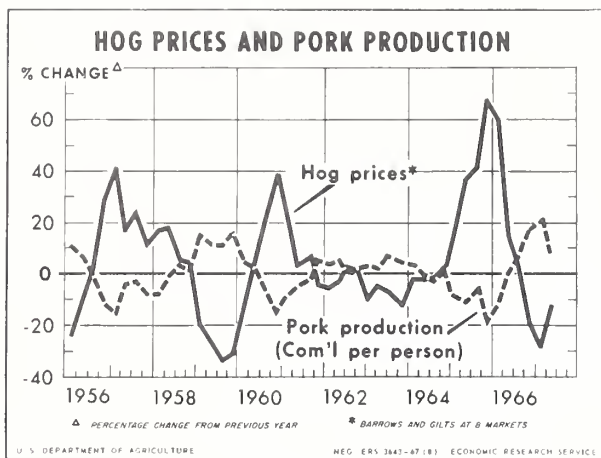
Before commenting on outlook prospects for 1968, I would like to review major developments this year.

Production and Prices

Production gains for livestock products have been large so far this year, especially for hogs, poultry and eggs. Production continues at a high level, but gains over a year earlier are narrowing. Commercial production of beef in the first half of this year was up 6 percent from a year earlier; more recently, it approximated the year-earlier rate. Production of pork and poultry each totaled around 15 percent larger in the first half than in January-June 1966. During September and October, pork production was still running about 6 percent larger and poultry output was around year-earlier levels. Egg production has continued in recent months some 6 to 7 percent above a year earlier, while milk output has held near the 1966 production rate.

Livestock product prices received by farmers in the first half of 1967 averaged 5 percent below a year earlier. Prices for hogs, poultry, and eggs averaged 15 to 20 percent lower. Milk prices averaged 10 percent higher. Livestock prices strengthened materially from depressed levels in the spring, but

*This paper draws on work of the Economic and Statistical Analysis Division of the Economic Research Service, with assistance from other Divisions of ERS, the Consumer and Marketing Service, Foreign Agricultural Service, and Agricultural Research Service.



by the third quarter they still averaged 4 percent lower. In recent months large supplies have held prices for hogs, poultry, and eggs well below year-earlier levels.

Grain and soybean prices have adjusted downward this year in response to big gains in production of wheat, feed grains, rice and soybeans. The all-crop index of prices received by farmers in July-September averaged 8 percent below a year earlier. This price gap narrowed in October with the sharp advance in cotton prices. But grower prices for wheat were down 10 percent, corn 19 percent, and soybeans 12 percent from October 1966.

Farm Income

Big supplies and declining prices this year, together with higher production costs, have reduced net incomes of farm operators. Despite expanding demand, supply increases in 1967 were large enough to reduce prices received by farmers in the January-September period by 5 percent from year-earlier levels. The net effect of larger marketings and lower prices was to reduce cash receipts from marketings only slightly. But the persistent uptrend in production expenses continued in 1967. As a result, realized net income of farm operators dropped to a \$14.8

billion annual rate in January-September, down from \$16.6 billion a year earlier.

The 1967/68 Marketing Year

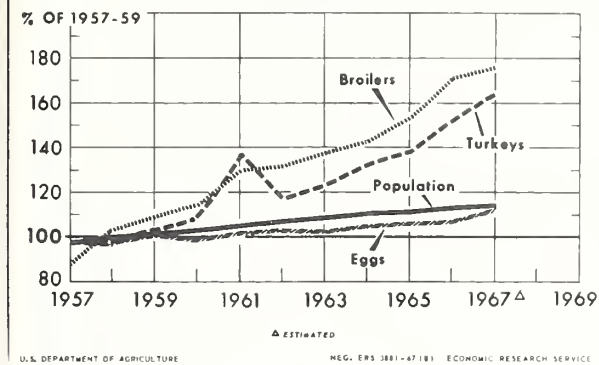
In looking ahead to next year, I think it will be more realistic to develop the outlook by exploring first the shorter-run supply and price indications for livestock products and crops for the 1967/68 marketing year. Later we can speculate a little about 1968 crops and the price and income outlook for all of 1968 as compared to this year.

Livestock

Production of beef and pork during the next 6 to 9 months likely will total around the large output of a year earlier. There were more cattle on feed October 1 in the weight groups that will supply a big share of cattle marketings through the first half of 1968. Cow slaughter is expected to continue under a year earlier, but the gap is narrowing. Although hog slaughter in October was still running about 6 percent larger than a year earlier, production gains have narrowed. Moreover, the indicated June-December 1967 pig crop, which will provide the bulk of slaughter supplies in the first half of 1968, is down slightly from a year earlier. But big feed supplies and favorable product/feed price ratios may result in heavier weights.

Broiler meat production by year's end may be running below a year earlier, according to chick placements in recent weeks. Reductions in September in the hatch of broiler-type chicks and fewer eggs in incubators on October 1 also point to some cutback in broiler production in the early months of 1968. The early turkey hatch has been running higher, suggesting larger turkey production early in 1968 when output is sea-

POULTRY AND EGG PRODUCTION AND POPULATION



sonally small. However, turkey breeders have reported intentions to reduce breeder hens by a tenth and breeder flock testings generally confirm a substantial cut. Egg production also will continue larger to around mid-1968; but with fewer pullets for flock replacement, production is expected to run below a year earlier during the last half of 1968.

In sum, overall production of livestock and livestock products will likely continue around high year-earlier rates well into next summer. Since domestic demand and consumer incomes are expected to expand, some recovery is in prospect for livestock product prices from reduced levels in the first half of 1967. Price gains appear most likely for beef, veal, lambs, and broilers.

Crops

A record 1967 crop output, some 4 to 5 percent above 1966, is now assured. Most of the increase was due to larger acreage planted, though yields also averaged slightly higher than in 1966.

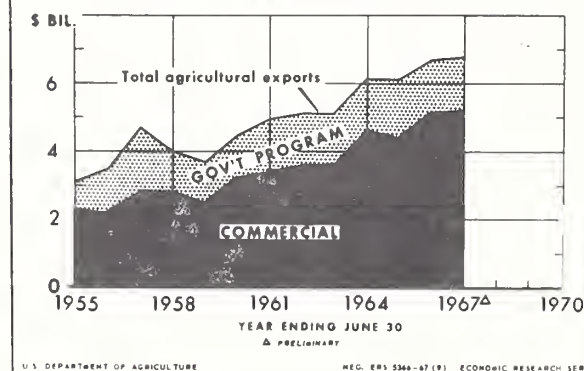
Compared with the overall output gain, increases were very large for a number of major crops: Wheat, 19 percent; feed grains, 12 percent; soybeans and rice, 7 percent. These gains were partly offset by a 16 percent reduction

in the 1967 cotton crop and sharp production cuts from 1966 for citrus and many deciduous fruits.

Expanding domestic demand and lower prices for grains and soybeans are expected to result in increased domestic use, particularly of feed grains and soybeans. Moreover, larger exports are in prospect for corn, soybeans, oils, and rice. Cotton and wheat exports probably will hold around 1966/67 shipments. Tobacco exports are not expected to match the big shipments in 1966/67, though they likely will be large relative to other recent years.

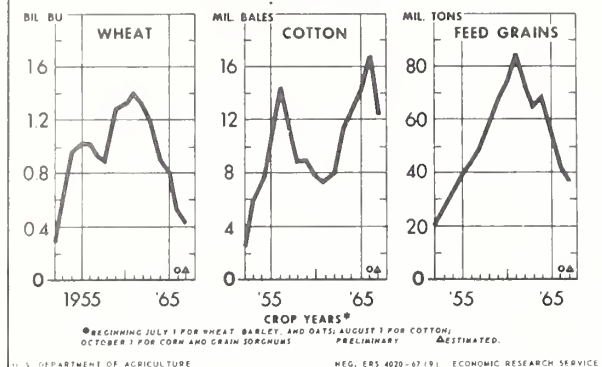
The value of agricultural exports in the coming year may total near the \$6.8 billion in 1966/67. Lower farm product prices will help to improve the competitive position of U.S. grains and soybeans. But U.S. exports will compete with generally larger world supplies of grains. Although the overall volume of agricultural exports in 1967/68 may exceed that in 1966/67, the value of exports will reflect lower prices for some major export commodities.

U.S. AGRICULTURAL EXPORTS: COMMERCIAL AND UNDER GOVERNMENT PROGRAMS



Even with larger utilization in 1967/68, some buildup in carryover stocks of wheat, feed grains and soybeans now appears likely. However, another big reduction in cotton stocks is

CARRYOVER OF MAJOR FARM COMMODITIES



underway. Utilization may run 5 to 6 million bales larger than 1967 production, reducing the 1968 carryover to less than 7 million bales.

With big supplies of major grain crops, average crop prices in coming months likely will continue below year-earlier levels, but probably by a narrowing margin. Season average prices for 1967/68 will likely average below a year earlier for such major crops as wheat, corn, and soybeans.

1968 Output and Price Prospects

Anything we might say about 1968 crops and about livestock production late next year is necessarily very tentative. And, price and income prospects for this period are even more uncertain.

In order to adjust output more closely to prospective demand, program changes have been announced for 1968 crops of wheat, corn, sorghum grains and cotton.

The national acreage allotment for wheat was reduced from 68 million to 59 million acres for the 1968 crop. The 1968 feed grain program is designed to encourage a diversion of about 30 million acres compared with around 20 mil-

lion acres in 1967. As a result, planted acreage for 1968 wheat and feed grain crops may be about 10 percent smaller than this year. The 1968 cotton program, however, is designed to expand production about in line with prospective mill use and exports--around 13 to 14 million bales.

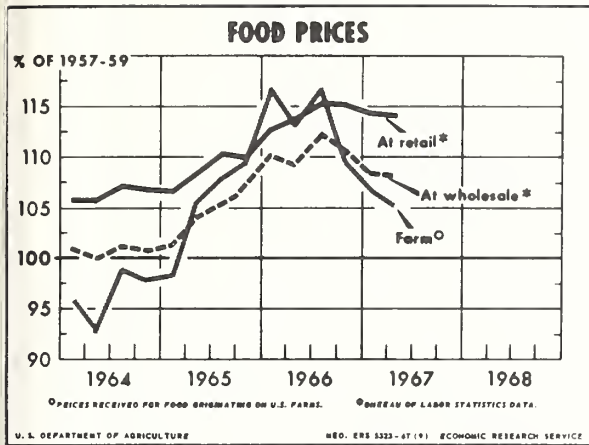
Assuming average growing conditions in 1968, we would expect a reduction in grain production and a sizable increase in cotton production. As of now, there is little basis for expecting overall crop output in 1968 to change much from this year.

Big supplies of feed, lower feed grain prices at least into mid-1968, and prospects for improved livestock product prices provide the conditions which usually lead to increased production of livestock products. How producers respond to these conditions will, of course, be a major determinant of the supply, price, and income outlook for livestock products in the last half of 1968.

Feed supplies and prospective product/feed price relationships point to the possibility of larger supplies of slaughter hogs later in 1968, increased output of broilers, and generally heavier feeding of all species including beef cattle and dairy cows. Although big production gains are unlikely, output of livestock products for 1968 as a whole is expected to at least match the record output in 1967.

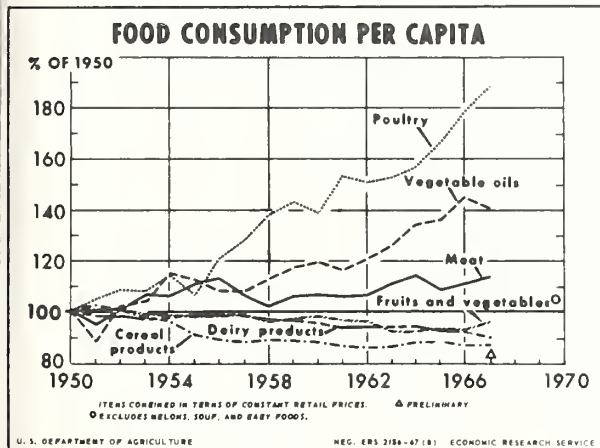
Food Supplies and Prices, 1968

Per capita food consumption increased about 1½ percent in 1967, with a relatively large increase for meats, poultry and eggs. Larger supplies of food and lower prices at the farm limited the uptrend in retail food prices in 1967. Prices for food used at home averaged about the same as in 1966. The



estimated increase of 1 percent in retail food prices from 1966 to 1967 was due to a 5 percent increase in prices for away-from-home eating.

Food consumption per person in 1968 may continue around the 1967 level. There is little basis for expecting much overall change in per capita supplies or consumption of beef, pork, poultry or eggs. At least through mid-1968, supplies of fruits will be smaller, while supplies of processed vegetables and potatoes are expected to be larger.



Retail food prices are expected to rise more in 1968 than this year and perhaps a little more than the average increase of $1\frac{1}{2}$ to 2 percent a year in

the past decade. Per capita food supplies around 1967 levels, a modest rise in the farm price of foods, and further increases in costs of processing and marketing foods all point to an increase from 1967 of perhaps 2 to 3 percent in retail food prices. Retail food store prices likely will average higher in 1968, and the uptrend in prices for away-from-home eating is expected to continue, though the rise may be less than that for this year.

Farm Income, 1968

Marketings of livestock products in 1968 likely will at least equal this year and some strengthening in prices is expected, particularly if production holds around 1967 levels. Crop marketings in calendar 1968, from record 1967 crops and prospective 1968 crops, are expected to exceed this year's volume. If 1968 grain crops are smaller, overall crop prices in calendar year 1968 may average around this year's level.

An increase in the volume of marketings and prospects for some strengthening in prices, particularly for livestock products, point to larger cash receipts in 1968. In addition, program changes for 1968 crops likely will result in some increase in Government payments to farmers. Thus, gross farm income is expected to increase by a billion dollars or more from 1967 to 1968.

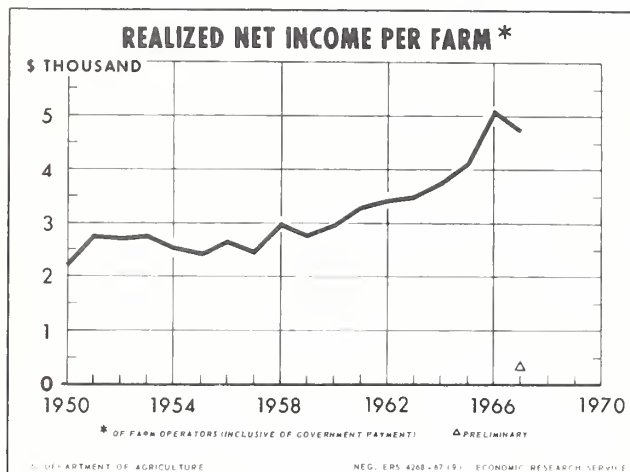
The uptrend in farm production expenditures will continue in 1968 and could accelerate somewhat if price pressures develop in the nonfarm sectors of the economy. Prices paid by farmers for most input items will continue to rise in 1968, though feed prices will average lower. Wage rates will increase, but the downtrend in farm employment may result in a total wage bill about the same as this year's. The farm financial outlook for 1968 points to another year

of relatively tight money and credit. Demand for credit will increase, but most farmers have been able to obtain financing at prevailing interest rates.

On balance, realized net farm income in 1968 is expected to match and perhaps slightly exceed this year's \$14-3/4 billion. The outcome will depend to a con-

siderable extent on livestock production in 1968 and the development of 1968 crops. Compared with a small decline this year, net income per farm is expected to increase in 1968. And, after-tax incomes of persons on farms likely will improve in the coming year.

In summary, farm income is down this year, and prospects indicate little improvement in 1968. Moreover, farmers' incomes will not keep pace with expected gains in the rest of the economy. However, we should also look at prospects for next year in the overall perspective of recent years. The sharp rise in farm income in 1966 should be viewed as a special situation. Farm income gains have been relatively rapid in the 1960 decade. Per capita disposable incomes of nonfarm people increased by 37 percent from 1960 to 1967. In comparison, net income per farm and after-tax incomes of farm people in 1967 are estimated around 55 percent above 1960.



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UNITED STATES DEPARTMENT OF AGRICULTURE
Office of the Secretary

A NEW LOOK AT THE WORLD FOOD SITUATION

Talk by Dr. Martin E. Abel
Deputy Assistant Secretary
at the Annual Agricultural Outlook Conference
Washington, D. C., 2:00 p.m., Monday, November 13, 1967

Food enough has been a chief concern of most of mankind throughout most of man's history. The specter of hunger has been eliminated in countries containing only about one-third of the world's population.

Probably the most important issue facing man today, aside from world peace, is the ability to adequately feed himself. In a period of a few years the "race" between food supplies and population has again become a much researched and discussed topic. Responsible people from all walks of life have energetically become involved in the world food problem. And there is a wide range of opinion about the size and complexity of this problem.

A few say there is no problem. But their numbers are small and available evidence weighs against them.

Some others see the world doomed to eventual and widespread famine. They hold that neither time nor the means are available to solve the world food problem. They see old man Malthus crawling out of his grave.

However, the vast majority of informed people think that the world food and population problems can be solved; that they can be solved in a way that not merely avoids mass famine, but contributes to economic development and improved well-being of billions of people. This is not to say that the problem will be easily or quickly overcome, or that in some countries there may not be periodic shortages of food. The path to success will not be smooth and free of obstacles. And, the path to success will be costly in terms of the resources that both the rich and the poor nations will have to devote to agricultural development.

The knowledge and the means exist to achieve a favorable balance between food supplies and food demands. The real test in the next 2 or 3 decades is man's willingness and ability to use this knowledge and the resources available to him. The real issue then is not whether man can provide food enough, but whether he will do so.

Man himself created the food and population problems we face today and will face for some time to come. In its simplest terms the problem resulted from a combined population explosion and a failure, particularly in many less developed countries, to devote sufficient resources and attention to food production and population control.

It is not recognized by many people that total food production in the less developed countries has been increasing almost as rapidly as in the developed countries. During the past 10 years total food production increased by 27 percent in the developed countries. The less developed countries increased total food production by 24 percent. Because of difference in population growth between the two groups of countries, per capita food production in the developed countries increased by 13 percent during the past 10 years, but remained about constant in the less developed countries.

It is not enough for the less developed countries to do as well as the developed countries; they must do better.

The war on hunger must be fought on both the food production and population fronts. Marked reductions in the rate of population growth in the less developed countries will greatly increase the returns to investments in food production and total economic development.

A recent economic study of population control efforts in less developed countries by Stephen Enke concludes: "(1) If economic resources of given value were devoted to retarding population growth, rather than accelerating production growth, the former resources could be 100 or so times more effective in raising per capita incomes in many LDC's. (2) An adequate birth-control program in these countries might cost as little as 10 cents per capita yearly, equivalent to about 1 percent of the cost of current development programs. (3) The possible use of bonuses to encourage family planning, whether paid in cash or kind, is obvious in countries where the 'worth' of permanently preventing a birth is roughly twice the income per head."

But current efforts to control the population growth rate do not reduce the rate of growth in the total demand for food for several years. Thus, immediate attention must be given to increasing food production under conditions of rapid rates of growth in population.

There have been several developments that give strong promise for man's victory over hunger.

Scientists are generating the technologies required to slow the rate of population growth and bring about more rapid agricultural development in the less developed countries. Progress has been made in the development of effective, inexpensive, and acceptable methods of population control. Discussion of the need for it is widespread in the less developed countries and progress has been rapid in some, such as Taiwan and South Korea.

Also, developments on the food production front have been encouraging. Such things as incentives, fertilizer, Mexican wheat varieties and rice varieties developed at the International Rice Research Institute in the Philippines have, within the last few years, become common topics for discussion by both farm and nonfarm people in a growing number of less developed countries. Their impact on food production is becoming increasingly convincing.

An increasing number of less developed countries are demonstrating the political will required to achieve accelerated agricultural development. More realistic policies and programs are being formulated and implemented. A larger allocation of resources is being made to agricultural development. Attention is being paid to the development and use of new technologies, the supply of inputs, and production incentives to farmers.

The increased political will to achieve more rapid agricultural development in large measure stems from the increasing realization of the importance of agriculture in the total economic development process. In most of the less developed countries agriculture is the largest single sector of economic activity. An unfavorable rate of growth in agriculture acts as a drag on the total economy. Conversely, more rapid agricultural development yields more rapid total development. This is particularly important when increased agricultural output is achieved by the modernization of agriculture; i.e., by the use of increased amounts of off-farm inputs such as fertilizers, pesticides, new implements, etc. This type of agricultural expansion creates a large and ready market for industrial products and helps speed industrialization. Similar demands for nonfarm products and services are created by the marketing and processing of larger quantities of agricultural products.

The President's Science Advisory Committee, in its report, The World Food Problem, states:

"The Panel is convinced from its study of the world food problem that food shortages and high rates of population growth in the developing countries are not primary problems. Rather, they are manifestations of a more fundamental difficulty, lagging economic development in the hungry countries."

The President's Science Advisory Committee report views the world food problem as awesome, but indicates that it can be solved. However, solutions will not come easily. The report states:

"... the aggregate analysis and the experience of individual developing countries such as Mexico indicate that growth rates (of agricultural production) of the order suggested above are not beyond the range of possible attainment. To reach the goal within the next two decades, however, will require a commitment on the part of developed and developing countries alike on a scale that has never before been achieved in peacetime."

The less developed countries can do a better job and some are showing signs of doing a better job to increase the rate of growth of agricultural production. But for some time many less developed countries will require food assistance. And, the level of food import requirements will increase significantly before it declines. The pressures of population growth and increased economic demands for food, for many years, will likely increase faster than food production in the less developed countries.

The full significance of a continued increase in food import needs of the less developed countries for some years to come--even as they improve their own rate of agricultural development--can be evaluated only if we also look at agricultural development prospects in the developed countries. These prospects, of course, will determine whether or not sufficient food will be available to meet the food import needs of the less developed countries. They also will determine future levels and patterns of world trade in agricultural products.

A recent study by the Economic Research Service, U.S. Department of Agriculture, entitled, The World Food Situation: Prospects for World Grain Production, Consumption and Trade, takes a look ahead to 1980 at the world grain situation. The report deals only with grains. But most of man's food comes, directly or indirectly from grains, so that trends in grain production and consumption are a good indicator of trends in the total food situation.

The World Food Situation report examines the grain situation in both developed and less developed countries. Projections of future production assume that world market prices of grains remain at the average levels of the past three years and that excess production over consumption at these prices would be withheld from markets in the form of either idled production capacity or increased grain stocks.

A single set of projections is made for the developed countries reflecting the most likely rates of growth.

Four alternative rates of growth in grain production were used for the less developed countries ranging in magnitude from a continuation of historical trends to a situation of such rapid improvement that output would reach an annual growth rate of 4 percent by 1975. Changes in the rates of growth in grain consumption were varied directly with changes in the rates of growth in production. This relationship reflects the impact of accelerated growth in food production on incomes and, in turn, on food consumption.

What does the World Food Situation report indicate?

First, it confirms the results of other studies that indicate that future grain import requirements of the less developed countries are likely to increase considerably. In the 1959-61 period, the grain importing less developed countries imported 20.7 million metric tons of grain annually. In 1964/65 the same countries imported 29.0 million metric tons. By 1970 their grain import

requirements are estimated to be 30.7 million metric tons. By 1980 these countries would, even with likely improvements in their rates of growth in grain production, require grain imports in the neighborhood of 52 to 54 million metric tons. This projected level is nearly double that of 1964/65. A part of these imports would be on commercial terms, but much of the growth would have to be on concessional terms.

Second, the report indicates that there will continue to be relatively rapid growth in grain production in the developed countries and in the less developed grain exporting countries such as Argentina, Mexico, Burma, Thailand, and Cambodia.

- Grain production in the less developed grain exporting countries is projected to grow sufficiently fast as to enable them to increase their exports from an annual level of 15 million metric tons in 1964/65 to just over 20 million metric tons in 1980.
- Eastern Europe and the USSR are expected to be nearly self-sufficient in grains by 1980, compared with a net import level of 7.5 million metric tons in 1964/65. And, the increase is likely to be sufficient to support a rather rapid expansion in livestock production.
- The developed free world countries other than the grain exporters will likely increase their grain imports from 37 million metric tons in 1964/65 to about 73 million metric tons in 1980--a near doubling of imports in 15 years.
- The developed grain exporting countries could easily increase grain exports from the 1964/65 level of 65 million metric tons to 152 million metric tons. This projected increase is based in part on an expansion of harvested grain acreage in the United States from the 1964 level of 158 million acres to a 1980 level of 186 million acres, which is about the same level that was in production in the late 1950's.

What do all these numbers add up to?

They add up to a likely surplus capacity in world grain production with world prices at about the average of the last three years, of about 30 to 40 million metric tons annually in 1980.

What are the implications of the analyses contained in the World Food Situation report?

One implication is that the world food problem is basically one of disparity of food production and food availability between the developed and developing nations. It is inseparable from the problem of the development gap between rich and poor nations. The less developed countries of the world will have to achieve a better rate of growth in food production. They need to do this in order to avoid a growing dependence upon external food supplies and all the problems of distribution, both between developed and less developed countries and within the less developed countries that growing grain import requirements imply. They need to do this in order to provide significantly better diets for their people. Most of all, they need to do this in order to achieve a much better rate of total economic development.

Another implication is that the rate at which grain production capacity in the developed countries increases will be largely independent of the rate at which production grows in the less developed countries. The rate of improvement in agricultural production in Eastern Europe, the USSR, and free-world developed importing countries--particularly the countries of Western Europe which have highly protective agricultural policies--probably will not be influenced very much by what happens to food production in the developing world. Also, the probable growth in agricultural production potential in the developed grain exporting countries will continue to be affected little by the rate of growth in food production in the developing countries. Continued increase in the capacity of developed countries to produce food is an important element in the total world food picture.

It is important to distinguish between production capacity and actual output which reflects the degree to which production capacity is utilized.

The future rates of agricultural development in both the less developed and the developed countries and the projected surplus grain production capacity have very important implications for the pattern and level of world trade in grains. A balance of some sort will be achieved in world grain production, consumption, and trade. But there are many ways in which this balance could be achieved.

One way is by stimulating commercial trade in grains through the elimination or neutralization of trade barriers. This could insure a slower rate of growth in grain production and a higher rate of growth in grain imports by the developed importing countries that now have highly protective agricultural policies.

Another way would involve controls on the rate of growth in production to achieve the desired balance between quantities and prices.

If a balance were to be sought by decreasing output and increasing consumption by means of lower grain prices, the major impact of lower prices would fall on the grain exporters, both developed and developing. The major grain importing countries would not likely share in the price adjustment because their protective trade policies would insulate domestic prices from declines in world prices. The aggregate demand for grain imports and the supply response are probably quite price inelastic. Thus, policies to maintain somewhat lower prices could still result in surpluses of a magnitude which, on world markets, would further seriously depress world grain prices.

Undoubtedly some combination of the above approaches will be considered, so each is at best only a partial solution.

The International Grains Agreement represents a first step towards a multilateral approach to developing an equitable solution to the trade problems posed by the continuing surplus production capacity in the developed countries.

There are several implications of the World Food Situation report for the United States.

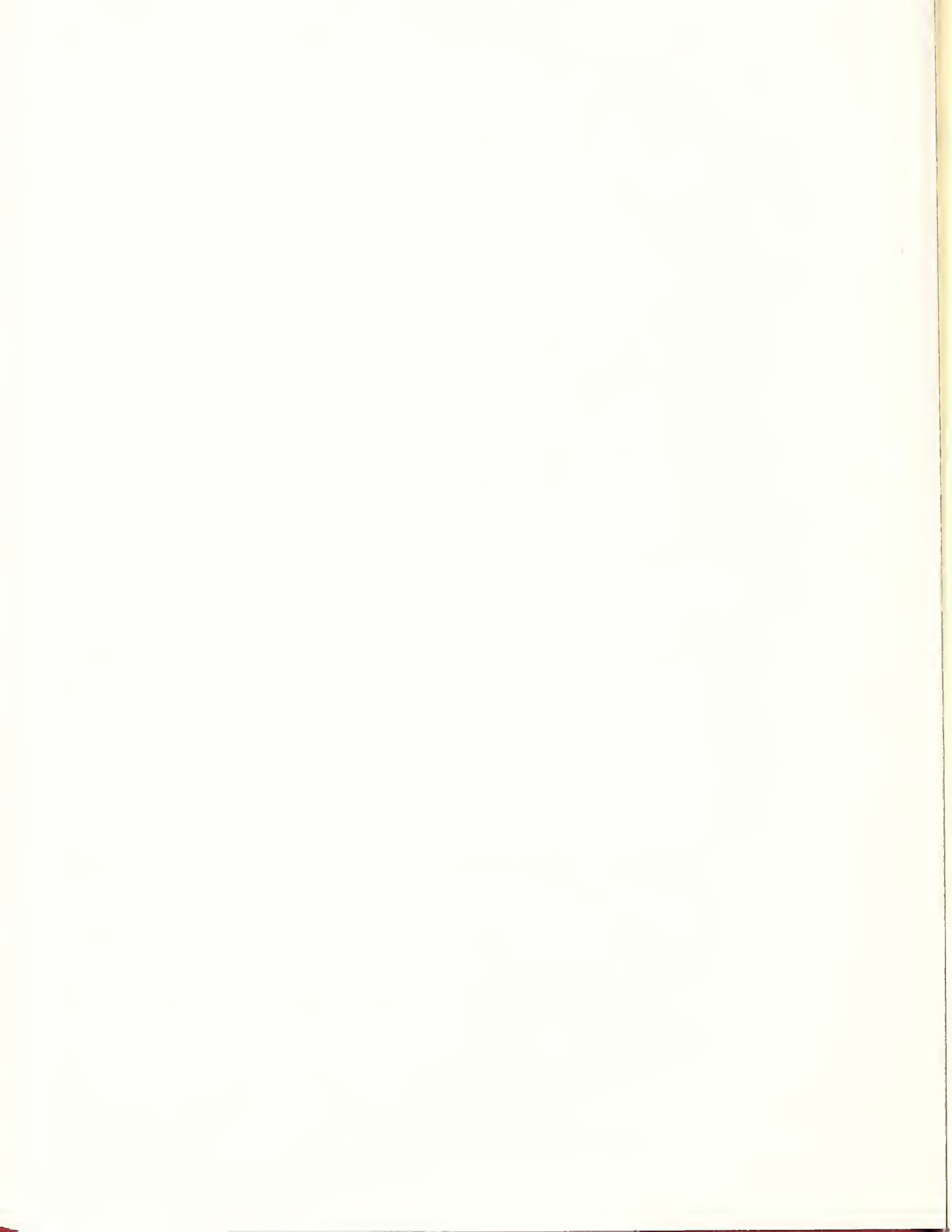
- The United States will be able to substantially increase its grain exports, maintain or increase its share of world grain trade, but still require some controls on grain production. It is estimated that by 1980 about 165 million harvested acres of grain would be required in the United States. This is about the same level that was harvested in 1967. The U.S. grain production required to supply all likely outlets will require fewer production resources, particularly land, than will be available for future use.
- The analysis also suggests that maintaining stable world grain prices will continue to be a problem. Increased production in the developed importing and exporting countries, other than the U.S., adds to the world grain surplus. A resulting downward pressure on prices might be avoided by arrangements among nations for sharing the task of restraining supply and supplying the concessional markets.

In summary, there are three major dimensions to the world food problem.

First, it is imperative that the less developed countries improve their rates of growth in food production. They need to do this in order to break their growing dependence on food aid and to achieve a better rate of economic growth.

Second, it will require an unprecedented commitment of will and resources by both developing and developed countries to bring about significant improvements in the rate of growth in food production in the less developed countries.

Finally, growth in grain production capacity in the developed countries will continue to press against growing demands with a resulting downward pressure on prices and a continuing need to balance supply with demand at favorable price levels.



UNITED STATES DEPARTMENT OF AGRICULTURE
Foreign Agricultural Service

A LOOK AHEAD AT AGRICULTURAL TRADE POLICY

Talk by Howard L. Worthington
International Trade

at the Annual Agricultural Outlook Conference
Washington, D. C., 2:30 P.M., Monday, November 13, 1967

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Trade policy in its broadest sense is the attitude a government takes toward imports into and exports from its territory, and the ways in which it influences this trade flow. Trade policies are generally spelled out in considerable detail in the laws and administrative regulations of particular countries and in less detail in trade agreements and treaties entered into with other countries or groups of countries. The most significant statement of trade policy in existence is the General Agreement on Tariffs and Trade.

I say most significant because the GATT is the most comprehensive trade agreement in existence, more than 74 countries adhere to it, including almost all the world's major trading countries, and because it embodies a philosophy of liberal trade based on the principles of efficiency, specialization and fair competition.

This instrument has guided most of world trade for the past 20 years. But for the past 5 years, at least, both the GATT and the principles on which it rests have come under increasing strain and have been subject to increasing criticism. In a paper to be given later on this program, Raymond Ioanes, one of our most knowledgeable trade policy practitioners says that today he sees more of a disposition of some countries to set aside conventional rules of international trade than ever before in his memory.

What I want to do now is to set out these conventional rules as they are found in the GATT, to identify the challenges they face and to talk briefly about efforts that will be made in the years ahead to reconcile the rules and the challenges. That will be our task for the next decade. The challenges are much too strong to be ignored.

The GATT Rules

Physically the GATT comprises three sets of instruments:

A slim volume of general trade rules negotiated mostly over 20 years ago but reviewed and updated to some extent in 1954.

A massive set of lists of specific trade agreement concessions, mostly being agreements not to increase import duties above negotiated levels, negotiated in six rounds of tariff negotiation, the last of which was the Kennedy Round.

And a library of volumes and papers containing 20 years of commentary, interpretation and elaboration of the general rules.

In essence the GATT rules are simple and straightforward and in my judgment there are five of them. There are many exceptions, qualifications and explanations to these basic rules, of course, and the spelling out of these take up most of the volume. The five basic rules are these:

1. Import and export duties are the only legitimate trade barrier consciously applied as a barrier. This is the famous rule which outlaws the use of quantitative restrictions on imports.

There are exceptions to this sweeping rule, of course. Quantitative restrictions can be used in emergency situations and for balance of payments and national security reasons. They can also be used to protect farm price and income programs if the farm program itself puts controls on domestic production.

2. Import duties can be reduced and eliminated, or bound against increase through negotiation. This rule is the basis for the six general rounds of tariff negotiations we have been through including the Kennedy Round.
3. Export subsidies should not be used to obtain more than a fair share of world trade.
4. All GATT member countries should be treated equally when measures are applied affecting exports or imports. This is the Most-Favored-Nation clause which says that no one country should receive better treatment than another. Closely allied to it is the National Treatment Clause which says that imports allowed into the country should be treated fairly in relation to goods produced domestically, that is, domestic goods should not receive better treatment in regard to the application of internal regulations affecting their sale or use.

Exceptions to the MFN treatment rule are made for preference systems which existed at the time the GATT was drafted, such as the

U.S.-Philippine preferences, and the Commonwealth system. These could be continued, although no new preferences were to be created in the systems.

The second, and major, exception to MFN was for preferences created when countries formed or joined customs unions and free trade areas. It was under this exception that the EEC, EFTA, LAFTA were formed.

5. Price and income support programs should not be used to increase exports from, or reduce imports into the territory applying them.

On this last and final principle I expect to get some argument. In recent years it has become quite common to hear that the GATT has no rules on farm support programs. The EEC particularly has taken that position, but it is not alone. I will admit that this rule is not as clearly spelled out as others and that not many GATT members have paid a great deal of attention to it, but the rule is there, and we in the U.S. have always recognized it.

These are the five major principles of the GATT. If you think about them for a moment, you will see the pattern they form. The import duty is to be the only legitimate barrier and it is to be gradually negotiated away. Exceptions are made where they must be, of course, but these are circumscribed. Trade is to flow to the maximum extent possible on an economic basis. It was a grand design for freer trade when drafted, and it still is.

Now as I've been talking, you have probably identified many of the challenges to these rules, of which I spoke earlier. But let's identify the major ones, and let me be clear. I am not seeking to identify temporary or even permanent departures from the rules. I am interested here only in major challenges to them.

Rules 1 and 2: The import duty is the only legitimate barrier, and as a barrier it can be subject to trade agreements negotiation.

The major challenge here in my estimation is the variable levy increasingly used by the European Communities and others. Whether or not the variable levy in its particulars is consistent with the strict letter of the GATT, and reasonable men can differ on this point, it clearly does not fit the rule I see. The import duty constitutes a margin of protection. It permits price competition. If it is set at reasonable levels it can be surmounted, and because it is generally fixed for substantial periods of time it enables a seller

to benefit from economies in production and it helps maintain stability in trade. Most importantly for trade agreement purposes, the import duty can be negotiated downward and bound against increase without changing the nature of the protection it gives. In such a circumstance only the degree of protection is changed.

The variable levy is quite different. It gives absolute price protection to the domestic producer by equalizing the import price with a predetermined domestic target price. It deprives exporters of any competitive price advantage they might develop. Variability, and thus instability, is its essence. And if the variable levy can be successfully negotiated and bound against increase we have not yet found out how. The EEC recognizes this. In the Kennedy Round they suggested several formulas for negotiating this system but none of these really fully dealt with the problems the levy creates, nor satisfied EEC suppliers that they were getting concessions of value. On the other hand, none of our proposals were acceptable to the EEC.

The EEC, of course, is not the only country to use variable levies. Nor did they originate the concept; and given the problems facing EEC Ministers in putting on a common basis the multitude of border controls the six member countries applied prior to union, some might find initial justification for turning to variable levies as a device. But given all that, the EEC is the world's major importer of agricultural products, and its use of the variable levy system on its present scale creates a trade policy challenge of major proportions.

Rule 3: Export subsidies shall not be used to obtain more than a fair share of world trade.

Again export subsidies, other forms of export assistance and international disposal of surpluses are not new. We have only to think of our own programs to realize that. And the U.S. has used many forms of export assistance over the years. So have others. But I think it fair to say that until very recently, export assistance was given by most countries with an eye to maintaining established trade patterns. Certainly this was the case with the United States. We did not consciously seek more than our fair share of world trade. Our export assistance was, and still is, made with a close eye to the competitive situation in the world and we have always sought to avoid disrupting markets. Our subsidies are controlled and deliberate. Each price decision is carefully weighed before it is made. Our competitors will agree with me on this, I think.

As a part of its permanent program, however, the EEC has instituted an automatic export subsidy program designed to move its

surplus products onto world markets without regard to established trade patterns or fair shares of world trade. EEC subsidies appear to be in use or contemplated for just about every agricultural product the EEC exports -- grains, dairy products, meats, poultry, lard, tomato products, and so on. Faced with this competition, other suppliers are either reacting with subsidies of their own or are being driven out of markets. The countries who are targets for these subsidized imports find themselves pressed to apply protective devices such as quotas, countervailing duties or variable levies to protect their own producers. You all know of our problem with low cost butter entering this country in the form of Junex. We are forced to tighten our import controls. The U.K. has had to take similar action. Greece has reacted to subsidized EEC poultry exports to its markets by applying a variable levy. And so it goes.

Rule 4: The Most-Favored-Nation -- or no preference rule.

The challenge to this rule comes from two sides. First, the developing countries disagree sharply with the MFN concept. They believe strongly that their needs for economic development can only be met through preferential access to the markets of developed countries. While their concerns are principally with manufactured and semi-manufactured goods, they do not exclude agricultural products from their plans.

Second, the growth of regionalism presents a major challenge to the rule. It is no secret that the growing network of association agreements between the EEC and other European and African states raises sharp concern on the part of many outside suppliers -- particularly is this true for the developing countries who can by this means be denied access to European markets for their products.

Rule 5: Farm price and income programs should not increase exports from, or decrease imports into the territory using them.

The challenge to this rule comes from many sides. It is, I think, the greatest challenge facing us in agriculture today. It would be a challenge even if the rule did not exist, and, as I've said, many will deny that it does exist at all. The EEC has. At the foundation of its negotiating proposal in the Kennedy Round was the premise that the GATT puts no restraints on internal support programs or policies. This is particularly serious since the EEC variable levy and export subsidy systems are linked directly to EEC internal support price objectives. As domestic prices increase -- and they continue to increase -- so do levies and subsidies. It was the

recognition of this direct link between domestic policy and trade policy which led the EEC to propose the negotiation of domestic support systems and prices in the Kennedy Round. The idea of preventing high supports from increasing inefficient production was good. Specific EEC proposals, however, were not practical.

Again, let me be clear. Certainly, no one has seriously challenged another's support policy action as being inconsistent with GATT rules in the 20 years of GATT's existence.

But there have been reasons for this. Up until quite recently the prospect of self-sufficiency, or near self-sufficiency of production in important importing areas wasn't as threatening as it is now. Moreover, up until quite recently in most major markets, support systems were not tied directly to import controls or export subsidies. In the United Kingdom, for example, where deficiency payments are in wide use, until very recently imports of most agricultural products entered the country freely or over moderate duties. It was a commonly held theory that if the support system became too costly to the national treasury the support would be moderated. What happened, of course, was that on grains, when the system became too costly, the U.K. introduced a modified variable levy system designed to alleviate the cost by raising the price to the consumer. In Germany in earlier years a developing, and supported, poultry industry was protected by quotas. These were clearly inconsistent with the GATT and the suppliers at that time targeted in on the quota, not the support.

Generally speaking, that was the pattern in major markets. Quotas, or duties, protecting the support were the main object of attention. The world, however, can no longer ignore support systems which increasingly encourage inefficient production.

I have set out the rules and the challenges to them. What is the outlook for reconciliation?

Frankly, it won't come easily. Countries are in no mood to give up the freedom of action they now have, or think they have, to do the things they think they must do. Before true reconciliation can take place all concerned have to be convinced that for their own good either the rules or the practices have to change. I don't think we've reached that point yet. Reconciliation is going to be a long and difficult process.

It is, however, a process which has started. The Kennedy Round did much to clear away some misconceptions on all sides. The U.S.

and others went into the Kennedy Round expecting to bring the practices I have mentioned more closely in line with the rules we felt we should continue to stand by. The others to a considerable extent, I think, hoped to have the Kennedy Round reconcile the rules to their particular practices. Neither of these things happened. But the Kennedy Round got things well started. And the process is continuing.

Key GATT trade Ministers will get together in Geneva later this month to map out a program of action in agricultural trade policy. What they decide will have an important bearing on how the work continues.

Except for the problem of developing country preferences in the markets of developed countries, I do not expect any rewriting of the general rules. It seems more likely to me that the problems will be tackled on a commodity or commodity group basis, among the countries most concerned, and that solutions as they emerge will take the form of commodity arrangements. These would operate within the GATT framework, but the rules applied could differ greatly from the general rules which the GATT now sets out.

The drive of the developing countries to obtain preferential access to the markets of developed countries is a different problem. Here the challenge, put clearly by the developing countries, is to change the rule. UNCTAD has become the forum for this debate, and the debate is far along. If a satisfactory general preference scheme can be worked out and applied, the rule itself could be changed. Philosophical objections to change seem to have been overcome. The difficulty is in working out a scheme which can be applied with equal fairness of burden to each of the developed countries and with equal fairness of benefit to each of the developing countries. This has not yet been done. It is difficult to do.

In this connection agriculture will be a particular sticking point. A fundamental problem with general preferences in agriculture is bound to be the strong competition to the agriculture of the developed countries which they would develop. This problem leads me to expect that even in the area of preferences, at least in the agriculture sector, countries might seek solutions in relation to particular commodities, and not in a general rule change.

The Kennedy Round has given us an idea of what to expect in dealing with agriculture's policy changes on a product group basis. During the Kennedy Round special negotiating groups were set up for

grains, for red meats, and for dairy products, and negotiations took place in these groups over an extended period. Only in grains was agreement reached, and even here the agreement was considerably less than we had sought initially.

In these groups we looked at all of the elements of support and protection afforded these products by the governments concerned. Duties, quotas, variable levies, support subsidies, none was excluded. We tried to determine where the protection really existed and how it would influence the outlook for production and trade in the years ahead. We tried to find formulas for bypassing the roadblocks that the particular instruments of protection posed.

Except for wheat, we were not successful in negotiating any agreement. In wheat we agreed on new international prices and on procedures for administering them. We agreed to have a Grains Council and an international secretariat pursue the work. We also established an international food aid program of 4.5 million tons. The problem of import protection and support remained almost entirely beyond our grasp, however.

Nevertheless, the work of each of the three groups was valuable. I am sure it will provide a foundation for our next try in these areas and I think it likely that the work of these groups will set a pattern for trying to deal with other commodities which are troublesome internationally. The EEC has in the past suggested the GATT countries consider problems on fats and oils, sugar and rice. We disagree on these, but find poultry and some fruits and vegetables a problem. Other countries have other problems they wish dealt with. Not all can be negotiated at one time. We will have to be selective.

As I look ahead at agricultural trade policy, I expect to see efforts in the following directions by the GATT countries.

There will be increased efforts to put specific, negotiated limits on certain support programs as production continues to increase.

There will be heightened interest in limiting or doing away with export subsidies and in negotiating international prices as a way out of the subsidy race.

International Food Aid programs will appear increasingly attractive as a means of enforcing price and removing surpluses.

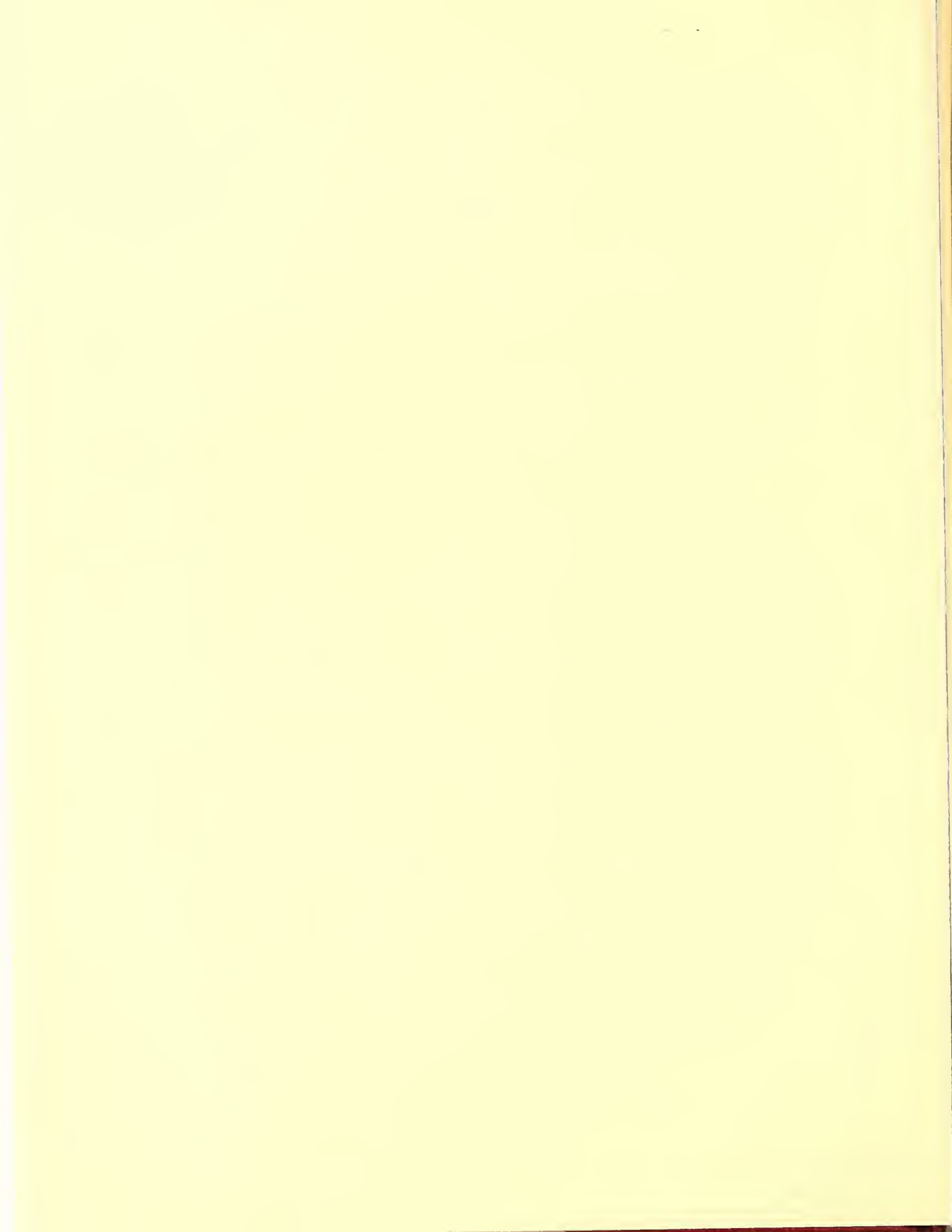
Commodity councils, or committees, will be seen as a way of keeping in close touch with developments in support, protection and subsidy policies, and as a way of keeping a needed degree of flexibility in them.

And it goes without saying that there will be a continuing effort to limit the use of the variable levy and to moderate its trade effects.

Overall we can look forward to more rather than less international activity in agricultural trade policy.







UNITED STATES DEPARTMENT OF AGRICULTURE
Foreign Agricultural Service

THE COMMODITY TRADE OUTLOOK

Talk by Raymond A. Ioanes
Administrator, Foreign Agricultural Service
at the 45th Annual Agricultural Outlook Conference
Washington, D. C., 3:10 P.M., Monday, November 13, 1967.

We are continuing to do very well in our agricultural export markets.

During this 1967-68 year, we appear to be heading toward a \$6.7 billion total in our agricultural exports, which would be close to last year's record performance of \$6.8 billion. We expect the export sales for dollars will be about \$5.1 billion, also near last year's record high of \$5.2 billion.

The fact that we are holding close to last year's export levels should come as no surprise if you're acquainted with my "plateau theory." This theory is that when we reach a new high point in our agricultural exports, we tend to pause and solidify our gains before going on to new highs. That has been the pattern in the very strong growth in our agricultural exports during these 1960's. When you look at the chart, you see this growth showing up as a series of ascending plateaus -- or stairs -- rather than a straight line.

From a \$4.5 billion starting point in 1960, we moved up to a \$5 billion plateau during the 1961-63 period. In 1964 and 1965, we were at a \$6 billion plateau. During this current 1966-68 period, we're averaging out at \$6.7 billion. And we hope to go on from here to new higher plateaus -- \$7 billion, \$7.5 billion, \$8 billion, and beyond.

I think there are three things that stand out today in our commodity trade outlook:

First, we have successfully built our agricultural exports to very high record levels. The earnings from these exports have become an important part of our farm and city income, as well as a major contributor to our country's favorable balance of trade.

Second, the forces that have helped us to achieve these big exports should continue to work for us. The principal force is the income improvement that is enabling people to eat better, in Europe, Japan, and in a number of areas around the world. The buying base is there. These people will be buying even more in the future than they have in the past -- from somebody -- and we hope they will buy from us.

But third, we also face some very real trade problems. There is danger that today's favorable economic forces may be counteracted by the growing tendency of a number of nations to disregard established rules of trade and try to export their agricultural problems, rather than solving them at home. Unless this growing tendency can be reversed, it can interfere seriously with reaching our new and larger export goals.

I want to comment further on this tendency which, for want of a better term, I have been calling "jungle warfare." Maybe we should use the more conventional term, "protectionism." Whatever we call it, I will have some additional thoughts later in my talk. But first, I'd like to give a quick review of the commodity-by-commodity export outlook.

Commodity Export Outlook

We have had some changed price relationships since a year ago in our export commodities. Lower prices are expected for soybeans, corn, and wheat, but higher prices are expected for rice and tobacco. While the total value of products exported should about match last year's, the volume of products shipped will probably be slightly higher.

Wheat. We are estimating the year's wheat and flour exports at 750 million bushels, roughly the same as last year. Because of the lower domestic and world prices which have resulted from our record domestic harvest and increased production in major commercial areas of Europe, the value of these exports will probably be lower than last year's.

We expect the mix between concessional and commercial exports of wheat to change somewhat from last year when we moved 303 million bushels under concessional programs and a record 440 million bushels commercially. Increased supplies in a number of important countries will likely reduce our commercial sales but we expect to balance this off with larger wheat shipments under aid programs.

Feed Grains. Our exports of feed grains, though continuing very high, are facing strong competition from increased feed grain production in major importing and exporting countries. However, the prices of our large production this year are attractive to foreign buyers and our total exports are projected at about the same as last year's 21.7 million metric tons.

Corn is by far our biggest feed grain export. Corn shipments should increase above last year's level as the demand for corn continues to grow and the price spread between corn and grain sorghums is narrowed. We estimate corn shipments at 550 million bushels, up about 25 million from last year. Grain sorghum shipments may be down substantially because of increased use of corn and smaller Government programming.

Rice. Exports of rice are expected to continue strong, up some from last year's 40 million bags (milled basis).

Oilseeds and Products. Our exports of oilseeds and products, currently our No. 1 dollar-earner in world trade, are likely to reach a new record, the seventh year in a row. The value of exports of oilseeds and products is expected to increase from last year's \$1,249 million to about \$1,300 million. This increase would result from a greater export volume of soybeans and products at somewhat lower unit value.

Cotton. Our cotton exports during the year are expected to be about like last year's 4.7 million bales. The sharply reduced supply of longer staple cotton again this year is stimulating export sales of short staple supplies which the U.S. has available for export in large supply.

Tobacco. Tobacco exports during the year may be moderately below the 627 million pounds of fiscal year 1967, which were the largest since 1920. They are estimated at 575 million pounds which, except for fiscal year 1967, would be the largest in 12 years. The sanctions on Rhodesian tobacco trade continue to work in our favor, as well as the good quality of recent flue-cured crops.

Fruits and Vegetables. We expect a slight drop in exports of fresh and processed fruits from last year's value of \$320 million and a slight drop in exports of vegetables from last year's value of \$120 million. Unfavorable weather in California and other areas sharply reduced some major fruit crops. A February freeze and spring drought in Florida reduced the citrus crop (although the smaller output of orange and grapefruit juices will be partially offset by the large carryover of juices from the previous year).

Dairy Products. Exports of dairy products are expected to increase somewhat because of larger exports of nonfat dry milk. Increased domestic production and decreased commercial utilization, with rising Government inventories largely from bigger stocks of nonfat dry milk, are the basis for these expected larger exports.

Poultry Products. We expect a slight decrease from last year's \$64 million total of poultry exports. We have strong competition, particularly from production within Europe. Exports of turkeys and turkey parts have been the only really bright spot in the poultry export picture. Such exports through September were 14 percent above last year. But the EEC has imposed supplementary import levies on turkey parts and, unless revoked, these levies will sharply reduce this trade.

Meat and Meat Products. Exports of variety meats are expected to gain some as a result of rising demand in the United Kingdom and the EEC, as well as concessions gained in the Kennedy Round. Exports of tallow should be higher this year, with most of the increase coming from larger shipments under Public Law 480. Exports of lard are facing stiff competition, particularly in the U.K. market where larger supplies are coming out of the EEC.

Importance of Our Agricultural Exports

So much for the general picture of the way our agricultural exports are taking shape this year.

I would like to turn now to some broad thoughts about these exports -- their importance, the opportunities we have to increase them further, and the trade problems we face as we try to do so.

The importance of our agricultural exports is well known to all of you. We see this importance coming into sharp focus when we look at the portion of farm sales of leading commodities that moves into export. This is brought out in chart No. 44 in your Handbook of Agricultural Charts, 1967. In fiscal year 1967, 67 percent of our farm sales of rice were sales for export. From 45 percent to 54 percent of sales of wheat, hides and skins, cotton, grain sorghums, and tallow were sales for export. From 24 percent to 38 percent of sales of corn, tobacco, and soybeans were sales for export.

The really dramatic growth in exports has been in those commodities that are closely associated with rising living standards -- namely, soybeans and feedgrains.

During fiscal year 1968, we look for exports of oilseeds and products to approach \$1.3 billion in value. This is 3 times larger than 10 years ago.

During fiscal year 1968, we look for exports of feedgrains to be somewhat over \$1 billion in value. This is an expansion of 2-1/2 in 10 years time.

Both soybeans and feedgrains are relative newcomers in international trade. Yet so strong is their new grip on the export market that together these two commodities comprise a third of our total agricultural exports.

Export growth such as this has obvious benefits for farmers who now export the production from one acre out of four of their harvested land. Something that is less well known is the new importance of agricultural exports to our country's international trade account.

During these 1960's our agricultural exports have had a dynamic growth but our agricultural imports have gone up relatively little. As a result, our agricultural exports today so far exceed our agricultural imports that we have a large favorable balance to add to our country's overall trade balance. In fiscal year 1960 this agricultural contribution to the trade balance was \$0.5 billion; by fiscal year 1967 it had risen to \$2.3 billion. During fiscal year 1967, our agricultural exports made up one-fifth of our total exports of all products; yet they accounted for more than half of our Nation's favorable trade balance.

Improving Ability to Buy

The steady rise in our agricultural exports is directly related to the improvement that has been taking place in the economies of the countries we sell to and the resulting improvement in the ability of their consumers to buy our products.

Our export expansion has not been an automatic process. We have worked hard and with some success -- including in the recent Kennedy Round -- to improve our access to such markets. And we have worked hard and with considerable success to carry out market development and sales promotions programs in such markets. But underlying such efforts has been this constantly improving financial base on which we could build.

When we take a group of 14 of the developed countries that make up our best customers, we find that they have been having an average growth rate of about 5 percent in their gross national product over the past 5 years. There has been some slow-down in some of these countries during the current year -- West Germany and the U.K., for example -- but we can expect a pick-up in economic activity again in the year ahead. Barring unforeseen economic or political or other adversity, I think we can safely assume that the countries we sell to will continue to improve their economies and their standards of living.

One excellent barometer of a country's economic progress is the amount of meat its people are eating. In our Western world, at least, people are not vegetarians by choice. When they can afford to buy meat, they will do so.

Here in the United States our people have been expanding their meat consumption until now it is in the range of 160 to 170 pounds per person per year. The people of Western Europe have been expanding their meat consumption, too -- as shown by our larger shipments of feed grains and soybeans to help them produce this meat.

The U.K. now has a per capita meat consumption of 140 pounds, which is up 10 percent from the late 1950's. In West Germany the figure is 120 pounds, up 16 percent. In the Netherlands, it's 108 pounds, up 15 percent. In Spain, it's in the 50-pound range, but even this is a gain of more than 35 percent.

In Japan, per capita meat consumption is only about 15 pounds which is awfully low but the significant thing is that this is twice what it was in the late 1950's.

The moral is: Wherever you have an industrialized country that is moving ahead economically and where there is a strong upward trend in meat consumption, there you have a strong potential market for the things that make meat -- namely, feed grains and protein supplements.

When we look at the very dramatic expansion that has taken place in our exports of feed grains and soybeans and soybean products, this is the answer.

American farmers are in a unique position to keep on supplying these foreign markets with very large amounts of the raw materials that go into the production of animal products. We have the soil, the climate, the farming structure, the equipment, the know-how -- in short, all the inputs that are required.

The potential is there.

But we have no guarantee of success. We face some problems.

Trade Problems That We Face

In recent Outlook Conferences we have been able to present a fairly rosy picture of export prospects, and the export results indicate that this optimism was warranted.

This year, however, I am going to be more conservative regarding the future. My natural inclination is to be optimistic -- I would like to think that our agricultural exports can go in only one direction, and that is up. But some sobering facts confront us. At best, the additions we make to our agricultural exports in the years immediately ahead will come harder than those of the years immediately behind us. At worst, we may not add to the size of such exports and could even slip backwards.

The most basic problem, as I see it, has to do with what is happening in the rules of world trade.

We do best -- in the long run, all countries do best -- under rules of international trade which work for the common good. This means rules which are based on economic principles of relative efficiency, specialization, and fair competition.

For a number of years we and our trading partners have been making progress in improving the rules of international trade. We have done this through the approach that we and a majority of our trading partners adhere to -- the trade-liberalizing features of the General Agreement on Tariffs and Trade, which was sponsor of the Kennedy Round and other trade negotiations in which we have taken part. We have done this, too, through countless individual discussions with governments around the world, also directed at reducing impediments to trade.

And these efforts have paid off. World trade in all products has expanded at a faster rate than ever before. And the United States has shared fully in this expansion, including in our agricultural trade. In this more favorable atmosphere, we have been able to build our agricultural exports to a size that few of us could have envisioned even 10 years ago.

Today there is danger of slipping backwards. In country after country, new impediments to trade are being initiated. We are in real danger of entering a regressive period in which the constructive rules we have set up can be replaced by the protectionism that I spoke of earlier.

As we try to hold our current agricultural exports and expand them further, there are a number of factors that influence the size of our exports. I have selected some of the most pressing ones and for convenience have grouped them into four categories: Competition, food aid, sanitary regulations, and protectionism. I would like to comment on each.

Competition. This year we are realizing, perhaps more than ever before, that we don't have any special hold on the world market. Importing countries have some new sources of supply. We are facing stronger competition.

In just a year's time, a number of changes have taken place in the world's agriculture. A year ago the Soviet Union and Communist China were buying large amounts of wheat; this year they are buying less and some of the exporting countries are wondering what to do with their excess supplies.

Argentina is trying to double her wheat production. France is expanding her hard wheat production and so is Australia. Canada has instituted a subsidy program for her wheat growers which will enable her to meet price commitments to her farmers as she competes in world markets. The Soviet Union is competing strongly for markets for her sunflower and cottonseed oils. Thailand and South Africa are expanding corn production and Japan is among their customers.

A year ago a lot of people were raising the question of whether the world was losing the ability to feed itself. But as you heard earlier today, the commercial world has a continuing capacity, for many years ahead, to produce more grain than it can sell.

Food Aid. Another important export factor is food aid. One of the considerations here is that certain countries, such as Yugoslavia and the United Arab Republic which once were among the principal recipients of our Public Law 480 shipments, are not now receiving such shipments. If we were still doing business under the old basis with these and some other countries, this alone could lead to additional shipments of 3 million tons of wheat, a quarter million pounds of vegetable oil, and a third of a million bales of cotton.

Sanitary Regulations. Another factor that influences the size of our agricultural exports -- and sometimes this is very hard to come to grips with -- is the matter of sanitary regulations. By this I mean the foreign health laws that our foods must meet if they are to enter another country.

Food health laws are, of course, necessary as a protection to consumers. We think we have some of the best food health laws in the world -- we've been

developing and improving them for many years. But it isn't ours -- it's the other fellow's regulations that apply when we ship our foods to another country.

Many of these foreign food laws are, of course, well constructed and reasonable. But others are impractical when applied to foreign trade. Still others are even of questionable integrity because their purpose seems to be to limit imports more than to protect consumers.

We are taking positive steps to try to cope with foreign food laws where they appear to be unduly restrictive. We are working at this time with the Germans and the Dutch to try to get understanding on some of their laws which could work a hardship on our export sales, especially of fruits and vegetables and variety meats. We're working also with the Japanese to assure that our program for control of Newcastle disease doesn't keep our poultry products out of the Japanese market.

Trade Protectionism. The fourth general area of developments that affect our agricultural exports is protectionism -- the disposition of some countries to set aside conventional rules of international trade in an effort to solve their domestic problems. I think more of this is taking place today than ever before in my memory.

I have no particular motive in singling out Western Europe for comment except that there we find some clear-cut examples of attempts to get rid of agricultural problems by exporting them to other countries.

The European Economic Community has constructed a system in which subsidized exports flow automatically from high-cost surplus production. These export subsidies are paid out of funds generated by import levies. Export subsidies currently are in effect on the Community's hams, fresh pork, lard, poultry, butter, tomato products, cheese, and perhaps some others.

As these products flow out of the EEC at reduced prices, they disrupt markets we have been selling in -- poultry markets in Switzerland and Greece are current examples.

The canned hams that come into the United States from Community producers are subsidized -- and it is ironic that the Community is able to raise this subsidy money through levies against our feed grains. We are at this time looking into possibilities of imposing countervailing duties on such hams to compensate for the artificially low prices.

The EEC system can become rather ridiculous, as shown by the fact that even Roquefort cheese can come into the U.S. from its French producers under a subsidy. Roquefort cheese, as we all know, is a gourmet item. The people who buy it are not shopping for a bargain. But the EEC has a surplus of dairy products; so, the export subsidy can lock in on Roquefort cheese, just as it does on butter, as part of the effort to get rid of the dairy surplus.

This EEC system is particularly insidious because it practically guarantees price spirals and surplus high-cost production.

I don't want to leave the impression that only the EEC is using export subsidies in questionable ways.

Australia is using a two-price system in order to cut its selling price of canned cling peaches and compete with us in Germany.

Italy has announced a program of export subsidies for canned tomatoes and tomato paste.

These are problems that bother us, and we are working aggressively to try to get them resolved. As we do so, we're aware that some countries say we're not entirely pure either and they cite our tobacco subsidy as a current example.

Today's trade problems do not involve only subsidies. Nations sometimes have special restrictions that keep us out of their markets. Japan is an example. We're doing very well in the Japanese market and we value this market highly -- but the Japanese permit only a trickle of some of our export products to enter, including fresh grapefruit, fresh oranges, orange juice and other fruit juices, apples, pears, and root crops. Fresh grapefruit, for example, is a fruit that Japan doesn't grow. Grapefruit sells in the Tokyo market for 50 cents to \$1 apiece. Such severe import limitations are hard to understand.

Switzerland permits the importation of our uncooked frozen whole birds but doesn't permit the importation of uncooked parts -- although the parts all come from whole birds that have been inspected for wholesomeness.

We have been aggressively chipping away at trade problems such as these and we will continue to do so. The Kennedy Round did some good in further reducing tariffs but it didn't get at these nontariff barriers. This will be the big challenge we face in the years ahead.

I think we are approaching a time of reckoning in international trade relations. Too many people -- and I will not exclude people in our own country-- want to have all the pleasures of trade without any of the pain. But trade doesn't work that way. You have to give something in order to get something. If everyone should get full protection for his domestic industry, the slow-down in international trade would be disastrous.

We in the United States should be giving leadership toward further dismantling of world trade barriers but if we are to do so we need to make up our own minds as to whether we really believe what we have been saying about the benefits of freely-flowing international trade. To me, the arithmetic is obvious; the benefits are there. Our favorable trade balances show it. I hope others will see this, too.

We need to keep chipping hard at the trade restricting actions of other countries. We have been doing this, and we need to keep on doing it. But we need to meet trade problems caused by others in ways that don't create new trade problems.

In our own trade policy, we need to seek a workable balance whereby we give reasonable protection to our domestic agricultural prices but not through actions so protectionistic that we bring retaliation and thereby endanger the many export gains we have made.

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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

FARMING AND THE RURAL SCENE -- CHANGES IN ORGANIZATION,
OPPORTUNITIES AND PROBLEMS

Talk by M.L. Upchurch, Administrator,
at the Annual Agricultural Outlook Conference,
Washington, D.C., 9:00 A.M., Tuesday, November 14, 1967

Most farmers expect to make money from their farming operations. They strive for an increasingly better living for themselves and their families. They do this by bringing together and using the productive services of land, labor and capital. Farmers have always done this. But the way in which this is done has changed dramatically in recent years. The technology of production and the changing economic and social environment in which farmers live and work is permitting or forcing dramatic change in the structure and organization of farming.

The resources whose services are essential to farm production are, as they always have been, land, labor and capital. Let us review briefly the nature and supply of these resources, their changing characteristics and how they are put to use in farm production. Such a review will show that (1) farm resources are more flexible in their use and less limited in their total productive capacity today than formerly and (2) many of these resources are no longer uniquely different from those used in other sectors of our economy just as farmers themselves differ less and less from other businessmen.

Let us look first at the processes by which farmers gain access to the services of production resources. This acquisition process is undergoing rapid change and has important effects on the structure of agriculture.

Hopefully, this review of the business of farming will give us added insight to better understand the changes occurring, the reasons for their occurrence, and their significance for the future of the farming industry.

LAND

Our National Land Base

Of a total U.S. land base of nearly 2.3 billion acres in 50 States, roughly one-fifth is used as cropland, including cropland that is pastured. Over one-fourth is in open permanent pasture and range. Another one-

third of the total area is forest and woodland out of which about a third is grazed by livestock. So about three-fifths of the land area is in crop and livestock production. Less than 3 percent of the total land area is devoted to urban and industrialized uses including highways.

Except for a downtrend in total cropland, the proportion of land in each of the major land uses in the aggregate has remained quite stable over the last 3 or 4 decades. But the totals obscure notable changes within these categories and within regions. As mechanization has increased, cropland has become more concentrated on fertile and more nearly level areas, and hilly and eroded land has been shifted to pasture and trees.

Since 1954, total cropland has declined from 465 million acres to 437 million acres in 1967--a decline of a little more than 2 million acres a year. And significant changes occurred in the use of cropland. These changes stemmed largely from shifts in the competitive position of major crops and from government programs designed to withdraw land from crop production.

Within the total acreage of crops harvested, the "feed crop" group (corn, oats, barley and grain sorghums) decreased 35 million acres (17 percent) from 1959 to 1966. Hay, silage and forage crop acreage for harvest declined only 3 percent during this same period. The acreage of "food crops" declined slightly but there was a big increase in soybean acreage.

Total cropland used for "other crops" dropped from 21.8 million acres in 1959 to 15.6 million acres in 1966; most of this decrease came from cotton.

In summary, we have a picture of a relatively stable national land base about four-fifths of which is used for agriculture, including forestry. Within that base the land devoted to grassland, pasture and range has remained stable; the more intensive land use class--cropland--has edged down slightly.

Clearly the dramatic changes attributed to farming have not been in the total acreage of land used or in its distribution between major uses.

Land in Farms and Farm Size

The total land in farms has been declining by an average of 3.5 million acres a year since 1950. However, the number of farms has decreased even faster than land in farms. Preliminary figures for 1967 placed the number of farms at 3.2 million, a decrease of more than 100,000 farms a year from 4.1 million farms in 1959. As a result, the average size of farm increased from 288 acres in 1959 to about 360 acres.

We have seen a very substantial change toward fewer and larger farms. The result is more farms with sales of over \$10,000. Farms having sales of \$20,000 or more have increased relative shares of total land and cropland harvested.

Land Tenure

Farmers strive to increase income and net worth. They strive for access to more land through leasing and other means to increase the size of business. Tenancy under current conditions does not carry the stigma of inferior status once ascribed to it. Today, a tenant is typically a farm operator who has acquired the services of land through means other than ownership.

Recent studies have shown that for the individual farmer obtaining debt-free ownership can hamper expansion of farm size and long-run farm income. In 1964, only 7 percent of full owners had farms with sales of \$20,000 or more (the two top economic classes as Census defines them). At the same time, 24 percent of the part owners and 16 percent of the tenants were in the top economic classes.

The trend in farm tenure in the United States is toward part ownership. One-fourth of our farmers are part owners but they operate one-half of the land in farms and rent 60 percent of the land under lease. One half of our farmers are full owners but they operate little more than one-fourth of the land. Tenants declined by 220,000 in number between 1959 and 1964 and in the latter year about 540,000 farm operators still rented all the land they operated. Sharecroppers are now so few that they are no longer reported as a separate group.

FARM LABOR

Total Supply

The number of workers on farms continues to decline. The average monthly number declined from over 7 million in 1959 to just over 5 million in 1966. During the same period the average number of family workers declined from 5.4 million to 3.9 million and hired workers declined from 2.0 million to 1.4 million.

Additional insight into the farm labor situation is provided by a recent study of the hired farm labor force. ^{1/} During 1966, some 2.8 million people did some work on farms for cash wages. Fully 40 percent of

^{1/} McElroy, Robert C., The Hired Working Force of 1966: A Statistical Report (Washington: U.S. Department of Agriculture, Economic Research Service, September, 1967), Agricultural Economic Report No. 120.

these were "casual" workers who worked on farms less than 25 days for wages. Another group almost as large, were the "seasonal" workers who put in 25 to 149 days of farm wage work during the year. Persons who depended primarily on farm wage work for a living were a small minority of the farm work force. During 1966, only about 578,000 workers were employed for 150 or more days as wage earners on farms. And only about half this number worked 250 or more days and could thus be considered as year-round farm workers. Operators and unpaid family workers provide about three-fourths of the labor for farming.

The big story in farm labor has been the great increase in the efficiency of labor use and the large reduction in the number of people employed on farms. These great changes are in contrast to the modest changes in the national land base. They have been brought about by massive injections into farming of our third major resource--capital. Today, most farm workers require great skill and large amounts of capital.

CAPITAL IN FARMING

Capital as a Productive Resource

Despite a declining farm labor force and reduced cropland the productive capacity of American agriculture has continued to increase. This seeming paradox is explained by the increased application of other inputs, most of which require capital. Adding more capital to farming means more intensive use of land and labor and greater productivity. The extreme examples are a mechanized, larger-scale feedlot in the west today or a mechanized, larger-scale egg farm in the east. These businesses draw lightly on the two traditional resources of farming--land and labor--but heavily on the third resource--capital.

Farmers have good reasons for substituting capital for land and labor. The prices of both land and labor have risen rapidly in comparison to capital inputs. Workers have not always had the skills farmers wanted and have not always been available on a seasonable basis in the numbers needed or at the wages farmers have been willing to pay. So, farms try to substitute machinery for labor. Individual farmers have faced allotment limitations. They have not always been able to buy or rent the land they wanted to maintain or expand the size of their farm. So they tend to intensify by using more capital.

Relative prices of most capital inputs have either declined or risen more slowly than prices of land and labor. The supply of such inputs as fertilizer, pesticides and machinery have seemed inexhaustible, at least to the individual farmer. And, the capital items could be financed with

short-term and intermediate-term credit. Thus, it has become both profitable and convenient to increase capital inputs relative to land and labor. Let me cite some examples.

Fertilizer

Preliminary estimates indicate that farmers used nearly twice as much fertilizer in 1967 as in 1959. The increase resulted from applying greater quantities of higher analysis fertilizers to an increasing proportion of the cropland. According to the 1964 Census of Agriculture, over 40 percent of plant nutrients used were applied to corn--more than for any other single crop. In 1964, 65 percent of all intertilled crops and 47 percent of the close-growing crops received some fertilizer--a considerable increase over 1959, but still low enough to permit substantial growth in the future use of fertilizer.

Irrigation

Irrigated acreage increased from 18 million acres in 1939 to 37 million acres in 1964, and it is still increasing. About one farm in ten has some irrigated land, and about 4 percent of all cropland and pasture is irrigated. About 20 percent of the total value of farm production comes from irrigated land. The greater value of production from irrigated land is a function of both higher valued crops and larger yields per acre than on non-irrigated farmland.

There is still room for selected growth in the use of irrigation. Moreover, technological changes also provide the potential for greater efficiency in the use of water. The Soil Conservation Service has estimated that with recommended practices, on-farm efficiency of irrigation could be increased from the present 60 percent to an estimated 70 percent. These practices are, of course, expensive. Irrigation will continue to represent one of the most capital-intensive inputs applied to cropland.

Farm Machinery

With fewer farms, larger farms, and about 8 percent less cropland harvested in 1964 compared with 1959, we also find changes in number of machines on farms. The changes in machine numbers from 1959 to 1964 range from a 10 percent increase for balers to a 13 percent decrease for corn pickers and combines. Although the number of wheel tractors continued to increase in 33 out of 50 states from 1959 to 1964, the total inventory gain was only about 3 percent. The most dramatic change in tractors during recent years has been the rapid increase in horsepower of the new units. Continued increase in both horsepower and number of tractors reflects a substitution of machinery for labor and a concern for timeliness

of operations. A decline in the number of combines from 1959 to 1964 reflects a shift from small pull-type combines in corn and soybean areas to larger self-propelled combines that are used for harvesting soybeans, small grains and corn.

Recent ERS statistics indicate that the index of mechanical power and machinery remained stable through the first half of the 1960's but in 1966 rose to 104 percent of the 1957-59 base period. Preliminary estimates for 1967 indicate that the machinery index will jump to 108 percent of the base period, a 4 percent increase over last year.

Amount of Capital Used

The value of production assets used in farming exceeded \$215 billion in 1967 including over \$50 billion in non-real estate production assets. In 1967, average assets per farm were \$73,000 including land and buildings worth \$57,000. By contrast, in 1940, the average farm had assets of \$6,000. Average assets per farmworker were \$41,000 in 1967 as contrasted with \$3,000 in 1940.

Farm production expenses in 1966 were \$33.3 billion out of total cash receipts (including Government payments) of \$46.5 billion (excluding Alaska and Hawaii). Expenditures included \$6.3 billion for feed, \$3.5 billion for livestock purchased, \$1.9 billion for fertilizer and lime, and \$3.8 billion for miscellaneous expenses. These expense items have increased rapidly relative to other short-term production expenses.

Retained earnings from farm sales have grown less rapidly than gross sales and less rapidly than the need for capital. Accordingly, farm debt has increased. Both real estate and non-real estate obligations against farm assets have approximately doubled since 1960. Total debt, including Commodity Credit Corporation loans, totaled \$45.7 billion at the beginning of 1967 and is expected to climb to near \$50 billion by January 1968. The increasing debt, which still amounts to only 18 percent of the value of assets used in farming, reflects the increased use of borrowed funds to meet the capital needs of farming.

Implications of Change

In addition to the rather dramatic increase in the importance of capital inputs to land and labor, there seem to be several changes in the manner in which these resources are being used and the distribution of their use. These changes have important implications for the organization of production and for the business and financial structure of farming.

Distribution of Production and Resource Use

The statistics which revealed declining farm numbers and increases in farm size imply the redistribution of both production and resource use. Economic Class I and II farms, those with sales of \$20,000 and over in 1966, accounted for 16 percent of all farms and 68 percent of all farm marketings. The top 3 economic classes, those with sales of \$10,000 and over, accounted for less than one-third of all farms but accounted for 85 percent of all production, 85 percent of all production expenses and 78 percent of all net income from farming. Clearly, these farms dominate commercial farming.

As all farms, large and small, have adjusted to mechanization and technological change, there has been a general--almost uniform--"across the board" growth in the size of those farms remaining. For example, the largest 10 percent of farms produced 44 percent of all farm production in 1949, 46 percent in 1959, and 48 percent in 1964. Likewise, the smallest 20 percent of all farms produced about 3 percent of all farm production in 1949, in 1959, and again in 1964. 2/

Despite a decline in the total number of farms, the number in the dominant commercial farming classes is still large and growing. We have over a million farms with sales over \$10,000 and the number has increased by one-fourth since 1959. One clear meaning of the statistics is that we have an increasing number of truly commercial farms with substantial operations which produce sizeable family incomes.

We have also a very substantial number of farms which do not produce adequate incomes. We cannot expect all present farms to become "adequate income" businesses by themselves. This does not necessarily mean that the operators of small, part-time or residential farmers will be poor. The average Class VI farmer of whom there were 1.4 million in 1966, received only \$800 net income from his farming operations. But the average family income from off-farm sources for this group was \$3,700 in 1966. Thus, the average farm family in this class had a total income of \$4,500, well above the poverty level. Even so we must strive to provide these families with opportunities for profitably employing their unused labor and other resources.

2/ Statement by Walter W. Wilcox, Director of Agricultural Economics, U.S. Department of Agriculture, before Subcommittee on Antitrust and Monopoly, Committee on the Judiciary, U.S. Senate, September 27, 1967.

Increased Specialization

We have seen increased purchases of farm inputs, increased renting of land and increased use of borrowed capital. These changes are further aspects of the continuing trend toward specialization. Farmers who once produced their own inputs, furnished their own labor and capital and produced their own food and fuel now find it expedient to purchase, from other specialists, their seed, fuel, fertilizer and family food. The shift from animal power to machine power eliminated the need to grow feed crops and pasture on every farm.

For good reasons, there is increasing commodity specialization on farms. By concentrating on fewer crops an individual farmer can do a better job of mastering the production technology and marketing of each crop. Crop specialization also permits a farmer to develop a more efficient and more specialized "package" of machinery, equipment, and buildings. Commodity specialization may also simplify the management problem.

The commercialization of farming has been facilitated by technological change in the production processes but the changes do not stop there. This technology also permits and encourages the separation of what were once intermediate production steps into separate specialized activities. The farmer once had to produce the animal power and the feed (fuel) for it in order to produce the hay and corn to feed cows which produced saleable beef or milk. He likely provided his own land, labor and capital resources.

Today, the trend is towards having the intermediate services and products provided by specialists, many of them based off of the farm. The services and products furnished by specialists include not only feed, seed, fertilizer and chemicals, but also technical information, management services, land services (through rental), machine services (through machine leasing) and even custom performance of the farming operations themselves.

One manifestation of the separation of the intermediate production steps into specialized activities is the partitioning of those activities which are not of necessity land based. Thus there are essentially land based as opposed to non-land based or land intensive farming operations. They correspond roughly to crop enterprises on the one hand and livestock and livestock products on the other. Except for range livestock and cow-calf operations, most livestock activities no longer need to be extensively land based. Broiler and egg production, beef feedlots, pig parlors, and specialized dairy enterprises are cases in point. If these production enterprises are not land based but require the use of large amounts of capital resources and skilled management, they lose their farming image and become less and less distinguishable from nonfarm activities.

One implication of the discussion thus far is the increasing importance of nonfarm businesses in farming. Many of the inputs formerly provided by farmers are now purchased from nonfarm firms. In fact, producing farm products today requires large transfusions of capital and capital services and even land and machinery services from nonfarm sources. Thus, a well-organized, well-financed and efficient nonfarm service sector of our economy is crucial to the well-being of the farming industry.

Business and Financial Organization of Farming

In farming as in other industries, the business organization of production is directly related to the methods and technology of production. The organization of largely subsistence farms was ideally adapted to the state of the arts of a century ago. But the kind of production technology, the substantial nonfarm resources being used, and the production specialization which characterize farm production today permit flexibility in the business organization of farming to an extent heretofore impossible. Like nonfarm business, farmers now purchase most of their inputs and sell most of their products. The technology which permits enterprise specialization permits the organization of business around that specialization.

Farmers in the group with sales over \$10,000 typically manage assets in excess of \$100,000 and farms with assets valued in excess of a quarter million dollars are not uncommon. Full ownership of these assets, once a goal of many farmers, may no longer be necessary. Farmers are learning that they can acquire the production services of land and capital through land rental, machine rental, custom work and borrowed funds--all alternatives to ownership.

In some areas of the country, the markets for land rental and custom services are becoming increasingly competitive and well developed. Separation of the use and ownership of land and machinery are further aspects of the trend toward specialization. Separation of the use and ownership of resources, which has long been a characteristic of the money market, encourages the services of resources to flow to their highest return uses. Four implications may follow:

1. If the resources are owned by nonfarmers as well as farmers, the returns to ownership, including possibly some benefits of government programs, may go to nonfarmers. We need to make sure that returns are fairly distributed between resource users and resource owners.
2. Separation of use and ownership of resources permits spreading of risks of investment at the same time farm operating units are getting larger. Thus, given the well-developed land rental

market currently existing, for example, in Illinois, one farmer may rent and manage as a single operating unit several tracts of land belonging to individuals who may be retired farmers, widows of farmers, and even heirs of farmers who may no longer live in the area.

3. Development of land rental and custom service markets has the potential for permitting economic growth of farms by both established and beginning farmers without their having to purchase expensive resources. The rapid growth of part owner-part rental farms between 1959 and 1964 is proof that farmers are achieving business growth through purchasing the services of land without purchasing the land itself.
4. The increased importance of land renting, use of land contracts, and use of other financing instruments, gives much enhanced flexibility in putting together production units in the "land-based" sector of farming.

The tremendous demand for capital may well force some farm operators who cannot get all the debt capital they want to modify their business organization to obtain access to outside equity capital. These modifications have already resulted in joint-account operation. These range in form from the traditional crop or livestock share leasing between operator and landlord to the various new sharing arrangements between operators and merchants in the specialized "nonland-based" poultry and livestock operations.

The Role of the Farmer

In summary, the central role of the farmer remains unchanged in the changing structure of farming. He is still the entrepreneur who brings the services of land, labor, and capital together to produce our food and fiber. In fact the farmer is becoming a specialist in this role. The basic change is that more and more of the resources and inputs are owned by nonfarmers or produced by nonfarmers and more of the product is consumed by nonfarmers. In general, the farmer's role as business manager (or entrepreneur) has become relatively more important than his traditional roles as laborer, investor and landlord.

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UNITED STATES DEPARTMENT OF AGRICULTURE
Consumer & Marketing Service

CHANGING MARKETING ACTIVITIES AND ORGANIZATIONS

Talk by Winn F. Finner
Office of Administrator
at the 45th Annual Agricultural Outlook Conference
Washington, D. C., 9:30 A.M., Tuesday, November 14, 1967

The separation of rural America from the consumers of its products is virtually accomplished. In between has emerged an expanding marketing system with, in fact, two major dimensions. First, the system turns raw products of the farm into those meeting the form, place and time requirements of consumers. Incentives within the system generally have helped stimulate improvements in the performance of these production operations. Second, the marketing system incorporates procedures for the determination of prices which clear the market and distribute revenues among marketing agencies and farmers.

The marketing of farm products is the Nation's largest business. Last year, for example, the marketing bill for civilian food alone was \$55 billion -- two-thirds of the \$83 billion spent by consumers for domestically produced food. The marketing bill for cotton, tobacco, and other nonfood products represents a significant addition to that for food.

The marketing system is undergoing significant change as a result of several continuing forces such as growing size of markets and firms and increasing scientific knowledge. Some of the more important changes may be reviewed.

Marketing Costs

Marketing costs continue to be of important interest to farmers and the general public. Costs become focal points in evaluating the efficiency and performance of the system including the distribution of proceeds among marketing firms and producers.

Two distinct trends are observable in the behavior of these costs. First, marketing costs, in absolute terms, have risen steadily -- the increase having averaged \$1.5 billion annually since World War II. Second, these costs have accounted for an increasing proportion of total consumer expenditures for food.

The fact that marketing costs are rising is not surprising. Larger volumes of food are moving through the system. Prices of inputs purchased by marketing firms have been going up. Labor costs, which currently are about 42 percent of the marketing bill have increased about 40 percent since 1957-59, and prices of intermediate goods and services have increased about 10 percent during this period. Services, which include such items as rent, property insurance and maintenance, and telephone increased most, being about 20 percent higher than in the base period.

Some progress has been made in offsetting part of the increased price of marketing inputs. Output per man-hour in all food marketing has increased about 2.8 percent per year over the past decade. New ways are being found, for example, to substitute capital for labor. Even with these advances, however, marketing firms have not been able to offset completely rising costs of inputs. This is reflected by the fact that per unit marketing charges have increased about 11 percent since the 1957-59 period.

Another important factor in increased marketing charges is the rise in marketing services per unit of product sold. Increases in the degree of processing are important in this respect. But other types of services also have grown. Product innovation, some forms of nonprice competition, rising consumer incomes and the increasing employment of women all promise to continue to stimulate growth in the volume and types of services provided by marketing firms.

Marketing costs probably will continue, as in the past, to rise and perhaps claim a larger share of the consumer food dollar.

Market Organization

Food marketing unquestionably has witnessed a growing degree of concentration. For example, in 1964, there were 31,000 food manufacturing companies. Three percent of these companies earned 70 percent of the profits reported by all. 1/

1/ Willard F. Mueller, "Cooperatives' Contribution to Effective Competition," Bureau of Economics, Federal Trade Commission, paper presented at Cooperative Month Observance, Washington, D. C., October 1967.

Another relatively recent feature of some of the largest companies is that they have become conglomerated -- operating in a number of industries. In some instances, these expansions have extended to areas other than food. Conversely, some nonfood manufacturers have added food product lines in recent years. ^{2/} There is no well-developed economic theory for assessing the likely consequences of such product and service diversification. It is quite possible, however, for a firm to improve its competitive position by using gains from one industry to become strongly established in other lines. It is also possible for conglomerates to adopt pricing policies formulated more from the point of view of the firm rather than individual products. Thus, prices for individual products may not fully and promptly reflect changes in market supply and demand conditions.

Conglomeration also may enable the application of improved management and decision-making techniques resulting in significant operating economies. The further evaluation of the performance of conglomerates will be important particularly if they continue to expand in importance.

Many changes also have taken place in retailing. In a number of local and regional markets sales have become more concentrated. Moreover, some retail firms have become vertically integrated to a greater degree, operating some of their own processing plants and procuring a large portion of their supply through direct negotiations.

Essentially, these changes in manufacturing and retailing add up to a distinct shift in competitive relationships. Many small sellers face relatively few large buyers. The National Commission on Food Marketing stated that: "Increasing concentration of purchases restricts the alternatives open to suppliers, stimulates compensating concentration . . . and weakens the effectiveness of competition as a self-regulating device throughout the industry." ^{3/}

Direct Negotiations and Contract Buying

One of the outgrowths of the increasing scale and changing requirements of many marketing firms has been an increase in direct and contract buying. This trend has been in process for several years but its effects are becoming more evident.

^{2/} For more detailed information on the nature of these expansions, see Richard J. Arnold, "Product Diversification in Food Manufacturing Firms," Marketing and Transportation Situation, Economic Research Service, U.S. Department of Agriculture, Washington, D. C., May 1967.

^{3/} Food From Farm to Consumer, Report of National Commission on Food Marketing, June 1966, p. 106.

Direct negotiations have increased for a number of commodities including poultry products, cattle and vegetables. Direct bidding on cattle at the feedlot, or through country agents, now accounts for over 40 percent of the cattle slaughter. For fresh fruits and vegetables, direct buying from shipping points by chains and other retail organizations has increased from about 12 percent of the total marketed in the mid-30's to about one-third today. Similar trends have occurred among other commodity groups such as eggs.

One of the most significant counterparts of this trend has been the decline in open market pricing. In some areas it has become virtually impossible for farmers to obtain reliable open market quotations to guide them in negotiations with sellers. This lack of information can cause significant differences in negotiated prices and returns among growers located in the same areas.

Prices are only one aspect of contractual arrangements. Other terms of a contract also may be important. An individual farmer may not have the information to readily size up the "going" value of one agreement versus another. Differences in delivery schedules, credit, premiums and discounts, bonuses, grades and weights, all may affect his net return.

Direct negotiations may limit market alternatives available to some farmers simply because there may be only one or two handlers with whom to contract.

Thus, direct negotiation has produced some benefits and may have brought about greater coordination between production and marketing, and it has also created problems for some producers.

Transportation

Costs of transporting farm foods for civilian consumption are a little more than 10 percent of the marketing bill -- over \$4 billion annually. This, in fact, may be a conservative assessment as some estimates run measurably higher. In any event, developments in transportation are of great significance to agriculture not only because of their impact on costs, but also on the competitive position of different areas in the production and processing of products.

A good deal of attention has been given to revising rate making principles in recent years. Mainly these revisions are aimed at changing rail rate structures to nearer a cost-of-service basis. The incentive behind this change is the intense intermodel competition facing the railroads. Due to this fact, along with improved equipment and other technological changes, rail freight rates have been steadily declining from the peak level in 1958. Currently, rail freight rates are about 90 percent of 1958 levels.

Changes in transportation technology or freight rates often set in motion adjustments felt throughout the agricultural economy. Thus, the reduction in rail freight rates due to improved equipment for grain extended the market for midwest grain into the important southeast poultry producing area. This, of course, has affected marginal grain producers in other areas. A change in rail freight rates has also been a contributing factor to the movement of meat packing plants into livestock producing areas. This resulted in part from the fact that rates were reduced more for meat than for livestock.

On the consumer demand side, it is generally expected that reduced transportation costs will have their greatest impact on those products with the highest demand elasticities. Thus, lower freight rates could be a more important stimulant to such products as meat and convenience foods.

Air freight currently accounts for a very small part of all agricultural transport. But it is becoming more important for some products, especially extremely perishable items. Improved cargo planes and better methods of handling have lowered costs and opened up new markets, particularly for certain specialty products such as strawberries.

Product Innovation

Product innovation has become one of the important features of the food marketing system. The rate of product innovation shows no signs of abating. For example, it is estimated that 55 percent of the food product forms on the market today were not sold commercially 10 years ago.

One of the clearest examples of the far reaching effects of a product innovation is provided by the case history of potatoes. Until about 1950, producers were faced with a shrinking demand. Through product innovation, consumers were offered a number of new convenient-to-use, easy-to-store quality potatoes at acceptable prices, and the declining trend in per capita consumption was reversed. During the past 10 years, the proportion of potatoes consumed in processed form has increased from 16 to 40 percent. This shift in turn has affected an adjustment on the part of producers of potatoes both with respect to methods and terms of sale. In particular, the rapid growth in potato processing was accompanied by an increase in contract buying -- especially in Idaho and Maine. Processors offer several types of contracts to growers, but generally a contract contains a provision for adjusting the price finally paid according to the quality of field run when it is actually delivered. This means, of course, that producers have had to adjust to selling their products under a new and more exacting set of conditions.

The character of interregional competition also has been affected. Processors, other than potato chip processors, located plants in major producing areas where adequate supplies could be assured. This helped some major producing areas gain a larger share of the market. For example, since the late 40's Idaho has increased its share of the market from about 12 percent to over 20 percent.

It should be noted that product innovation is a two-edged sword, sometimes cutting against, as well as for, agriculture. The development of man-made fibers, detergents, and synthetic sweeteners and other foods are cases in point. Man-made fibers now constitute more than 40 percent of total mill consumption. This innovation, then, has had the impact of making substantial inroads on important agricultural markets.

There are also a number of synthetic foods appearing on the scene whose potential impact could be great but is not yet clearly evident. Some of these product innovations, while not truly synthetic, create a substitute product by using only a portion of the ingredients of the original commodity. A recent development in this regard is the creation of imitation milk, some of which is made by combining coconut oil, either skim milk or nonfat dry milk powder, and an imitation milk base. One only need recall the history of margarine to appreciate the potential impact that a strong demand for this product could have.

Foreign Agriculture

The developments in marketing discussed thus far have been confined to the domestic economy. However, it seems likely that many future developments may represent adjustments of marketing firms to changes on the international scene. Agricultural exports have shown substantial gains in recent years. Since 1956, commercial exports, without assistance, have more than doubled, and further expansion is expected. Exports now account for approximately one-sixth of total sales of farm products.

This expansion of international markets is creating a new set of conditions to which marketing firms must adjust. Quality standards for certain grains, slaughtering processes for some livestock and packaging requirements for a number of products are among the several areas in which domestic adjustments are taking place in response to growing export markets.

Bargaining Power and Competition

Special attention should be given to two conditions which are generating continuing and important concern and interest among U.S. farmers. The first of these conditions pertains to the nature of competition in the sale of products by farmers and farm groups. The second condition pertains to the ways of strengthening bargaining power of farmers and their organizations. These two conditions are not simply different ways of characterizing the same phenomena. Some efforts to improve bargaining power, for example, are aimed centrally at a higher price level throughout the entire marketing process rather than at narrowing price margins between different stages of the marketing process.

Despite this difference, both concepts have drawn support, to some degree from the same events in the marketplace, and both concepts have produced proposed remedies essentially similar in character. That is, each has been viewed as an avenue to higher farm income.

Historically these concepts have been important elements in explaining the forces of organizational and institutional change in marketing. These include the farmer organizational movements beginning in the last half of the 19th Century; the sustained growth and broadening range of operations of agricultural cooperatives; legislative restrictions on or surveillance over certain types of transactions such as those dealt with in the Perishable Agricultural Commodities Act; and other legislation, such as the Agricultural Marketing Agreements Act aimed at broadening opportunities for concerted action among individual farmers seeking a common goal. These and numerous other developments over the past several decades can be explained in considerable part by the efforts of farm groups to strengthen competition and improve prices -- the second dimension of the marketing system.

More important than historical developments, however, are current changes in marketing services and organizations which may aid in reducing competitive imperfections and in developing a broader bargaining framework. Among these are the following:

Better marketing information -- The demand for more comprehensive market information is an ever growing one to serve both individual farmers in making decisions and farm groups in price negotiations. Public agencies, as well as certain private groups, have responded to this demand. Over the past 10 years, for example, the Department has increased the number of market news offices by almost 20 percent, and now has such offices in well over 200 locations. Likewise, the Statistical Reporting Service has

broadened its coverage of both production and marketing. Further expansion appears certain. Broiler producers in several areas, for example, have recommended that contract terms be reported regularly, and there has been a continuing interest among livestock producers for more frequent reports on cattle feeding.

Grading -- The application of standards of quality and identity, likewise, is helping perfect the pricing process. There has been a substantial growth in the use of Federal meat grades. It appears likely that around 63 billion pounds of meat and poultry will be so graded this year -- twenty percent more than five years ago. Yield grading of beef also is expanding and currently about one-eighth of the beef graded for quality is also graded for yield. We still have a long way to go, however, for some other products -- and, actually, even for beef. For example, consumers at present complain that they find it hard to identify retail cuts of beef because of the wide variation in the cutting, packaging, and nomenclature used. And this, in turn, makes it difficult, if not impossible, to compare prices and values, not only between stores but even between cuts in the same store. This is an area the USDA is now studying.

Marketing orders and agreements -- Marketing orders and agreements are among the more important means of changing the organization of markets to enhance the economic position of producers. They are not new to agriculture and have been used generally since the 1930's; although about 20 percent of those now functioning have been initiated within the past decade. In fruits and vegetables, there currently are about 90 Federal and State marketing orders and agreements, and there are now 74 Federal milk orders in addition to those established under state authority. Analyses of the economic impact of specific orders have been limited. However, a survey of the dairy industry by the National Commission on Food Marketing indicated that there was agreement among farmers and dealers that market orders have decreased the disorderly marketing conditions that existed prior to their establishment. In addition, marketing orders are providing a more solid basis from which price premiums are currently negotiated in a number of markets.

Market orders as presently authorized are not a cure-all for the problem of economic instability or inequitable balance of power between marketing firms and farmers. The effectiveness of an order depends upon such considerations as the nature of consumer demand for the product, the proportion of the total market covered by the order, the ease with which supplies may be drawn from other areas, the availability to consumers of substitute products and the elasticity of supply in the industry. These considerations indicate that marketing orders can be more effectively used in some situations than others. In any event, market orders can make meaningful contributions in improving marketing conditions and they are likely to be applied more widely for some products in the future.

Farm Cooperatives -- Other forms of collective action include producer bargaining and marketing cooperatives, both of which have shown sustained growth over the past half century. The proportion of various farm products marketed by cooperatives varies widely. Almost all of the sugarbeets are so marketed, about 75 percent of raw milk for fluid use and 10 percent of the eggs. ^{4/} At one stage or another in the marketing process, cooperatives handled about 25 percent of all farm products.

Further organizational changes -- There continues to be dissatisfaction with the distribution of gains from technological progress in agriculture. The agricultural support given to the creation of the National Commission on Food Marketing, the debate generated by S.109, the efforts of some farm groups such as the Farmers Union and the National Farm Organization to deal directly with both buying and selling prices, all are recent indications of this continuing concern.

Yet, as the Secretary said last May; "A proper climate for his (farmer) organizing efforts has yet to be created." It seems clear that farmers and farm organizations will give substantial attention to developing a "proper climate" in the years immediately ahead. The continuing increase that cash costs are of total farm production costs and the growing size of investment in individual farms are indicative of the sharper adverse economic impact price instability can have now as compared with earlier periods. Likewise, alternatives now seem clearer -- if not more disturbing -- to farmers. The failure of the Equity over half a century ago to gain sufficient bargaining power to improve the price of wheat essentially was reflected in lower wheat prices and incomes of producers.

^{4/} Martin Abrahamsen, "Marketing Cooperatives in the Agricultural Economy," Farmer Cooperative Service, U.S. Department of Agriculture, A paper presented at hearings of the National Commission on Food Marketing on Agricultural Cooperation and Bargaining, Washington, D. C., November 3-4, 1965.

Failure of American agriculture to establish a stronger position in the future may well be reflected not only in lower returns but also in the much further envelopment of American agriculture into the integrated forms of the American industrial economy. These will be among the driving forces stimulating efforts to develop marketing programs giving greater stability at satisfactory income levels.

There are limits, however, as to what can reasonably be accomplished by these actions. It is quite possible that only modest producer gains would be achieved even from well conceived efforts to develop stronger marketing programs and that these gains would entail some partially offsetting costs. How to keep total market supplies within workable limits poses major problems now as it has in the past. Nevertheless, the promise even of limited gains could well generate substantial change in agricultural marketing in the decade ahead. These, in turn, would be expected to have a marked impact on production and the incentives influencing it.



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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

PEOPLE IN CHANGING RURAL AMERICA--WHAT IS AHEAD?

Talk by Max F. Jordan
Economic Development Division
at the 45th Annual Agricultural Outlook Conference
Washington, D.C., 10:15 A.M., Tuesday, November 14, 1967

Previous speakers have treated the changing structure of agriculture and changes in marketing organizations and activities. I should like to broaden the scope of our concern here today by giving attention to people in changing rural America and to some human indicators of pressure on rural resources. Then I will try to answer some questions on what lies ahead for rural people.

Are high rates of rural to urban migration likely to continue? Can adequate job opportunities be created in areas now classified as rural to retain more of the potential migrants? What is the outlook for rural labor? Are there ongoing changes in community structures that could lead to reversal of current trends?

Background

Human Indicators of Pressures on Rural Resources

The factors associated with rural outmigration are many and varied. To some extent they can all be said to be associated, in one way or another, with need for resources that either do not exist or are in too limited supply in rural areas. Several indicators of the pressures on rural resources are of particular interest.

Potential Replacement Measures.--One of the best single indicators of the relative pressure on rural resources, in my opinion, is the set of measures of potential supply and replacement of rural males of labor force age developed by the ERS for the 1960-70 decade. (1)* These measures relate the number of young men reaching working age to those older men in the group expected to die or reach retirement age.

The replacement measures enable us to look forward in the decade. 1/ While they do not contain sufficient information to allow an evaluation of economic trends in an area, they are useful indicators of areas of potential oversupply or under-supply of labor. Indirectly they reflect current use of resources, as measured by potential job openings, and pressures on the resources, coming from potential job seekers.

* Underlined numbers in parentheses refer to items in the list of Principal References Utilized, page 14.

1/ Paragraphs below are taken from page 2 and data in Reference (1) with some modification.

The implied numbers above replacement are, in effect, rough approximations of the number of rural men for whom additional jobs will have to be found somewhere in the U.S. economy in the present decade, either within or outside the area of residence category in which they were located in 1960.

In the absence of development of new economic resources or further development of existing resources, areas of high replacement ratios are those most likely to experience heavy outmigration in the current decade. However, an area with a high replacement ratio may be a labor-deficit area if it is experiencing unusually rapid economic expansion. Furthermore, there may be deficits of particular types of labor -- for example, professional or skilled workers -- in areas of only modest economic growth while the local supply of other labor categories is in substantial surplus.

On the other hand, an area with a moderate ratio may be an area of larger-than-indicated surplus if its economic opportunities are declining. The ratios for the farm population understate the replacement potential in this regard in most areas. Numbers of farming opportunities continue to decline as technology advances, the size of farms increases, and fewer young men are able to enter farming because of large capital requirements or because they are unwilling to farm at only a subsistence or slightly higher level of income. It has been estimated that the number of men dying or retiring from commercial farms that sold \$5,000 or more of farm products in 1959 would be about one-sixth as numerous as the total of farm boys aged 10-19 in 1960 who will become 20-29 in the current decade. Men dying or retiring from commercial farm operations that sold \$10,000 or more of farm products in 1959 -- typically the minimum output needed for an adequate income from farming alone -- would be only about one-twelfth as numerous as the young farm men reaching age 20.
(2)

In 1960, the number of men aged 20-64 in the rural population was about 13.5 million. During this decade (1960-70) about 3 million of these men will die or reach age 65, and about 5.3 million young men will reach working age 20. The replacement ratio of 177 (177 young men reaching working age for every 100 men who die or reach retirement age) indicates that, if there were no net migration to or from the rural population, and if the number of job opportunities remained about the same as in 1960, approximately 44 percent of the young men reaching working age in rural areas could find work only by moving or commuting to urban places.

The greatest pressure on rural resources is in the South (table 1). In the South Atlantic States, for example, the replacement ratio is 214 for all rural males and 271 for nonwhite rural males. In other words, among nonwhites there would be 2.7 times as many entrants as departures if there were no migration. Areas of particularly high pressure are found in the Southwest where there are many Spanish-Americans and American Indians (chart 1). In the North, on the other hand, the rural ratio is 158, an indication of somewhat less pressure on rural areas.

Table 1.--Rural males, 20-64: Number in working-age group in 1960, entrants, departures during 1960-70 and replacement ratios, by color, United States, regions and divisions

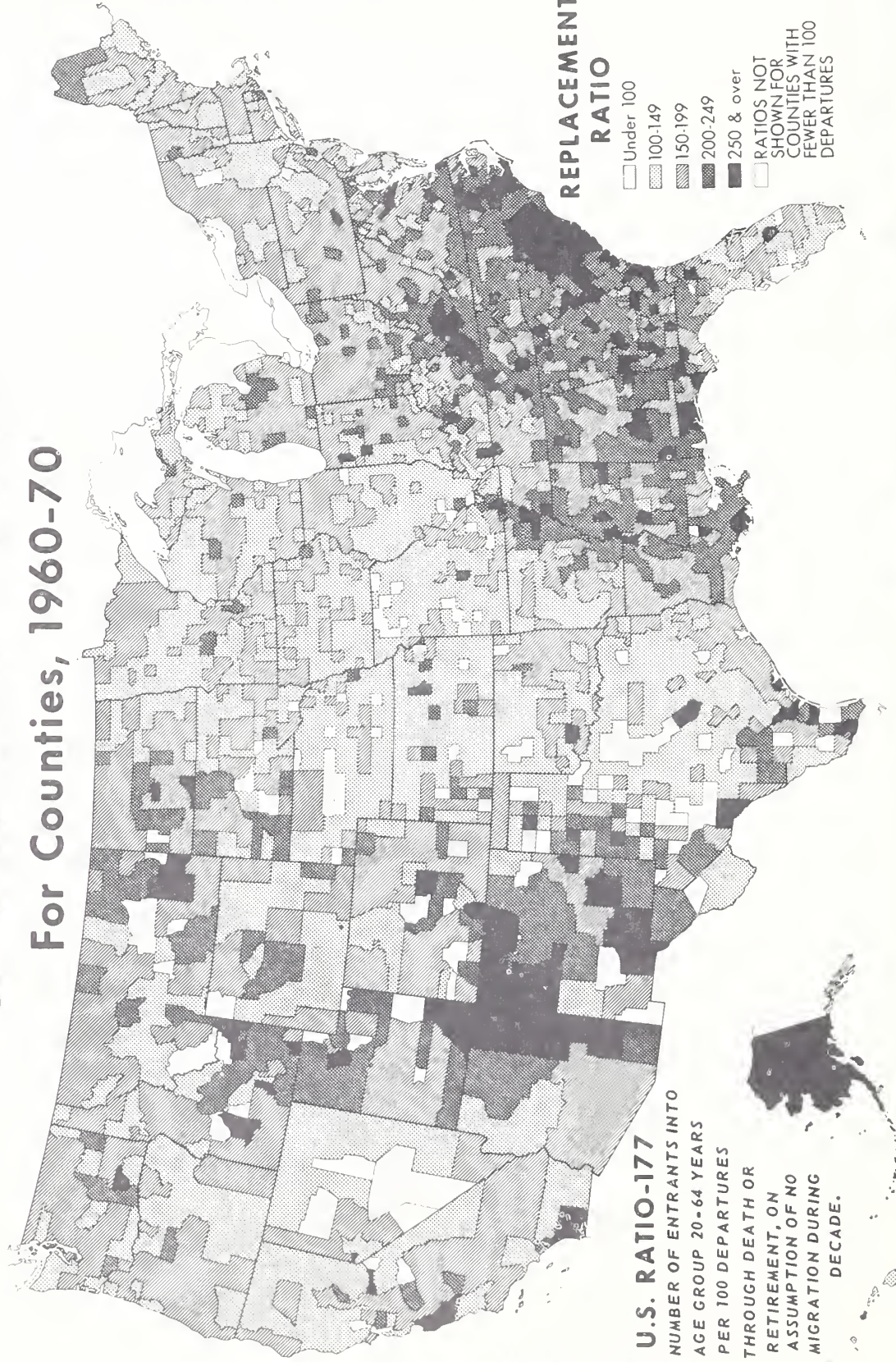
(Figures rounded to thousands without adjusting to group totals)

Area	Males 20-64, 1960			Entrants, 1960-70 1/		
	Total	White	Nonwhite	Total	White	Nonwhite
	Thou.	Thou.	Thou.	Thou.	Thou.	Thou.
United States 4/	13,481.4	12,310.1	1,171.3	5,305.0	4,644.4	660.5
Northeast	2,265.7	2,221.4	44.3	777.0	761.2	15.8
North Central	4,019.7	3,957.8	61.9	1,494.5	1,471.0	23.5
South	5,511.2	4,571.8	939.5	2,409.0	1,837.6	571.5
West 5/	1,590.9	1,502.6	88.2	592.6	558.0	34.6
New England	631.8	624.0	7.8	216.8	215.1	1.8
Middle Atlantic	1,633.9	1,597.4	36.5	560.2	546.2	14.0
East North Central	2,436.6	2,398.8	37.8	904.2	892.2	12.0
West North Central	1,583.1	1,559.1	24.0	590.3	578.8	11.4
South Atlantic	2,733.0	2,219.3	513.6	1,177.1	873.2	303.9
East South Central	1,450.1	1,217.3	232.8	672.7	520.3	152.4
West South Central	1,328.2	1,135.1	193.0	559.2	444.0	115.2
Mountain	569.7	530.0	39.6	225.4	205.1	20.3
Pacific 5/	1,021.2	972.6	48.6	367.2	352.9	14.3
Area	Departures, 1960-70 2/			Replacement ratios 3/		
	Total	White	Nonwhite	Total	White	Nonwhite
	Thou.	Thou.	Thou.	Thou.	Thou.	Thou.
United States 4/	2,997.6	2,718.9	278.7	177	171	237
Northeast	490.6	481.3	9.3	158	158	169
North Central	950.4	936.4	14.0	157	157	167
South	1,208.5	980.6	227.9	199	157	167
West 5/	333.6	315.5	18.1	177	176	190
New England	133.5	132.3	1.2	162	162	146
Middle Atlantic	357.1	349.0	8.1	156	156	172
East North Central	548.5	540.0	8.5	164	165	140
West North Central	401.9	396.4	5.5	146	146	208
South Atlantic	548.3	436.5	111.8	214	200	271
East South Central	329.4	267.0	62.5	204	194	243
West South Central	330.7	277.1	53.6	169	160	214
Mountain	117.1	109.6	7.5	192	187	271
Pacific 5/	216.6	205.9	10.6	169	171	134

See footnotes and source at bottom of page 13.

REPLACEMENT RATIOS OF RURAL MALES AGED 20-64

For Counties, 1960-70



Underemployment.--In addition to the above indicators of potential deficiencies in employment opportunities, measures of economic underemployment add to our knowledge about the pressures on rural resources. 2/

It is well-known that many people who remain in rural areas are not remunerated at the same rate as persons of similar income-earning capacities in the country as a whole. The Economic Research Service has estimated that in 1960 economic underemployment of employed rural persons between the ages of 20 and 64 was the equivalent of about 2 million man-years of unutilized labor. This was about 13 percent of the employed rural persons in 1960.

Approximately .8 million man-years of this rural underemployment was among farm residents, or nearly 21 percent of employed farm people. The 1.3 million man-years among employed nonfarm rural people represented about 12 percent of that group.

The incidence of underemployment for those between 20-64 years tends to increase with age (chart 2), indicating that younger people are being remunerated at rates more nearly comparable to those received by equivalent persons in the rest of the economy. Still, the fact that many people can receive higher remuneration if they leave is an important factor in rural-urban migration.

Rural-Urban Migration.--Information on the extent of migration between rural and urban areas that has occurred in recent years is perhaps one of the most direct human indicators of pressures on rural resources that we have. Trends and outlook for rural migration were presented at last year's Outlook Conference. Beale, et al (3) said that "Between 1940 and 1960, an estimated 21 to 22 million people may have left rural areas and remained in rural places or lived in communities that became urban in character. Also, additional millions left rural areas, but returned."

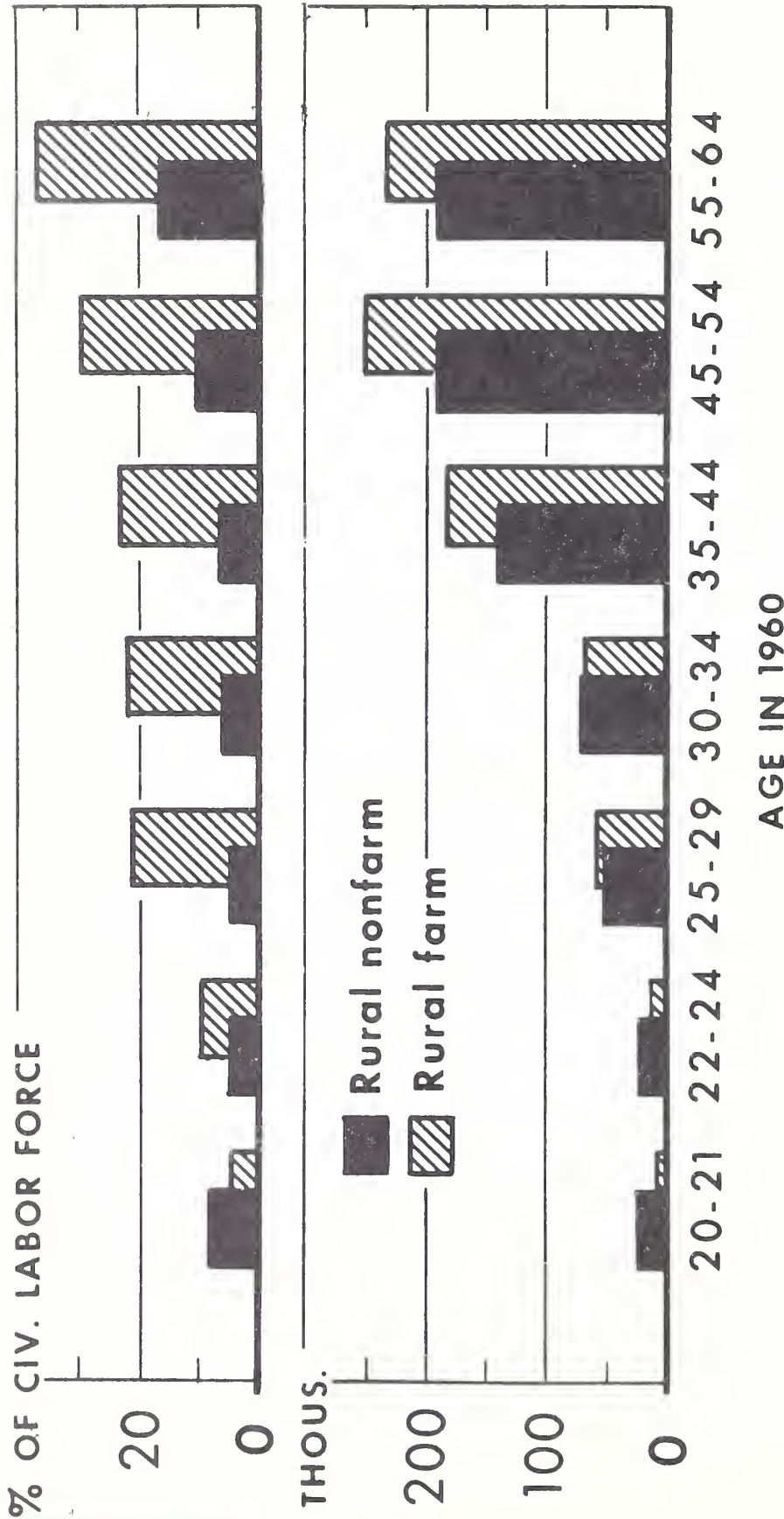
Since the total numbers of rural people and total rural employment stayed at about the same levels between 1940 and 1960, it is obvious that declines in the farm sector were offset by growth in the nonfarm part of the rural economy. Some brief comments on current movements from the farm population will serve to demonstrate continuing readjustments in that sector.

For the period 1960-66, annual net loss through migration and reclassification of residence averaged 804,000, or 5.9 percent annually, compared with 1,015,000 or 5.3 percent in the 1950-60 decade. (4) Although the annual rate of net outmigration from the farm population has been slightly higher since 1960 than it was during the 1950's, the absolute amount of net outmigration is progressively smaller nowadays because of the smaller population base.

2/ Material in this section is based on unpublished data of the Economic Research Service developed by Robert G. Glasgow.

ECONOMIC UNDEREMPLOYMENT, 1959*

Rural Nonfarm and Farm Males by Age



* AVERAGE ANNUAL MAN EQUIVALENTS THAT WOULD BE SURPLUS IN PRESENT USAGE IF THE RURAL MALE LABOR FORCE (20-64 YEARS OF AGE) WERE UTILIZED AS EFFECTIVELY (AS INDICATED BY LEVEL OF EARNINGS ATTRIBUTABLE TO LABOR SERVICES) AS COMPARABLE MANPOWER IN THE NATIONAL LABOR FORCE.

In some areas, outmigration rates are very much higher than those for the Nation as a whole. In the Delta portion of Mississippi, for instance, the net rate of off-farm movement may have been as high as 13 percent between 1966 and 1967. 3/

Characteristically, outmigrants are young people. They are more aware of pressures and are in a better position than older people to take advantage of alternative opportunities. Most are between the ages of 18 and 29. They are usually just out of school and looking for employment and they seek areas in which they perceive better opportunities. Migrants are more likely to be single than married, but whatever their marital status, the desire for a more satisfactory future is a motivating force in their actions. They are not likely to be home owners, thus are not held by this security and familiarity, seemingly so important in later life.

Measures of Restriction.--One additional measure demonstrates a somewhat different aspect of pressure on resources. This is the estimate developed by the Economic Research Service of the extent to which certain people in the rural population are, in effect, trapped in their present circumstances, without immediately foreseeable release.

The so-called "boxed-in" families probably numbered around 2.8 million in 1960. (5) Most of these families have older heads, with a low level of education, whose potential for retraining, and for migration to other communities, is limited. Of the "boxed-in" group, 1.8 million were rural nonfarm and 1.0, farm residents.

What Is Ahead?

The human indicators of pressure on resources, discussed above, of course, are not mutually exclusive. Areas with high replacement ratios are usually those of high underemployment and incidence of "boxed-in" families. In general, they are areas where continued high outmigration is likely unless economic development of unusual dimensions stems the current tide by reversing the relationship between labor supply and demand.

This relationship is very complex and is only partially apparent from a perusal of labor statistics. We can, and do, have shortages in some areas for labor of specific types and yet in the same, or adjoining, areas find unemployed or underemployed workers. It is not sufficient, however, just to make head counts of job vacancies and underutilized people in attempting to match men and jobs. Skill levels, and the willingness and ability of people to fill available jobs, must be determined.

Need for Jobs in Rural Areas

Outmigration has distorted the age distribution of many areas. Now they have a comparative shortage of young adults. In fact, in some areas deaths now exceed births, resulting in population declines from natural causes as well as migration.

3/ This estimate is based on unpublished data of the Economic Research Service developed by Calvin L. Beale.

Declines from either source can result in better relationship between population and resources. On the other hand, they can accelerate a downward spiral which is difficult to halt.

When young adults are few, financial resources may be reduced and the tax burden for public services and facilities becomes heavier on those who remain. The labor force may be below the level necessary to attract industry. School enrollment drops and consolidation becomes mandatory. Community organizations are weakened by declining membership and interest. Leadership becomes scarce as rural areas permanently lose young people who go away and obtain a college education. More often than not, their college training qualifies them for jobs available only in urban areas.

When all these things occur at once, an area is likely to disintegrate.

If we assume that net outmigration will continue at somewhere near current rates, and if we take into account concomitant changes in age, sex, and residence status, we can expect the rural labor force to remain almost unchanged in total size for the next few years, at least. However, this assumes that the expected drop in farm jobs will be offset by an annual growth of around 300,000 rural non-farm jobs or jobs accessible to rural residents by commuting. (6) If, on the other hand, outmigration and rural outmigration were to be stopped, the annual creation of about 555,000 rural jobs would be required. (7)

Usually when people talk of job creation for the rural labor force, they refer to manufacturing industries of one type or another. While this is important, we feel that future plans for many areas should include more than this type of industrial development. Recreation, retirement, public sector services and industries -- particularly education and health and the location of government facilities -- have great potential for rural areas. And, the development of complementary services which will logically follow such primary developments should not be overlooked. We should also expect to see employment for rural areas increased by programs to accelerate natural resource conservation and development.

Potentials of the Rural Labor Force

If it were possible to create the needed jobs, would the rural labor force be sufficiently employable to fill them?

In our opinion, there are many forces operating today that would permit a favorable answer to this question.

In the first place, education and skill levels of the rural population are constantly improving.

Another factor that needs to be considered is the current interchangeability of people between farm and nonfarm employment. A sizeable and increasing proportion of farm operators have employment off their farms. A high proportion of farm wage workers engage in nonfarm work during the year. Workers in the farm and

nonfarm sectors of the rural population commute to jobs in urban areas, and many of those not commuting have jobs which are identical or similar to jobs people hold in urban areas. In other words, there is increasing complementarity of work between rural and urban areas, as well as versatility in transferring between farm and nonfarm occupations.

This interaction between rural and urban residents has drawn the two sectors together, thus minimizing differences. Industry coming to a rural area may expect to find many people already accustomed to urban-type employment.

To some extent, recruitment for the rural labor force is becoming more complex, whether it is for farm or nonfarm work. Recognition of transferability of skills, provision and assimilation of job information, physical movement of people, provision of adequate housing and community facilities, improvement of labor management relations, and of competitive wages and fringe benefits are among problems which must be faced and solved.

In planning for the development of human resources in rural areas, the goal should be to provide people with opportunities to develop their full social and economic potential whether they remain in the local community or leave it. Then the rural labor force can meet the employment standards -- education and training, responses to questionnaires, test scores, and favorable impressions at interviews -- of urban-type employers.

In this regard, we feel that vocational training should be viewed as a supplement to, not a substitute for, a sound basic education. However, vocational training is very important to many young people and the vocational education program in rural schools should be realistic and geared to the kinds of employment opportunities that are likely to be available in the future. This means that major changes must be made in many schools where the vocational programs still revolve solely around agriculture.

In 1960, for instance, in 27 States, there were 438 enrollees in daytime vocational agriculture classes per 100 adequate opportunities in on-farm occupations. (8) While the vocational education programs of many schools have been modified to some extent following the Vocational Education Act of 1963, the changes are still not adequate. In fiscal 1966, approximately 907,000 youth were enrolled in vocational agriculture (table 2), the largest number since the beginning of that program in 1917. This is three-fourths the number in the trades and industry program or the office occupations program. The latter two programs are those which most rural youth will find their livelihood. In fact, about 82 percent of our projected total labor force in 1970 will be in white-collar and blue-collar categories (table 3).

Further implementation of some of the provisions of other federally subsidized programs also can have an impact on rural employment potentials.

Table 2.--Vocational education: Enrollment and Federal expenditures,
fiscal year 1966 1/

Program	Enrollment			Federal expenditures	
	Total	Rural <u>2/</u>		Total	Rural
		Number	Percent		
	Thou.	Thou.	Pct.	Thou.	Thou.
Agriculture	907	544	60	\$25,447	\$15,268
Distribution	420	42	10	6,945	695
Health	84	4	5	6,208	310
Home economics	1,925	770	40	10,970	4,388
Office	1,237	186	15	22,907	3,436
Technical	254	25	10	19,751	1,975
Trades and industry	1,278	128	10	50,888	5,089

1/ Provisional figures, (4/18/67) subject to final audit of State reports.

2/ Percent of schools offering programs in communities under 2,500 population.

Source: (6).

Table 3.--Major occupations: Estimates and projections of employment in major occupational groups, 1960-75

Occupation group	Actual			Projected		
	1966			1975		
	Number : Mil.	Percent : Pct.	Number : Mil.	Number : Mil.	Percent : Pct.	Number : Mil.
Total employed	66.7	100.0	74.1	100.0	100.0	88.7
White collar	28.8	43.1	33.3	44.9	46.5	42.5
Professional, technical, and kindred workers	7.5	11.2	9.3	12.5	13.5	12.9
Managers, officials and proprietors excluding farm	7.1	10.6	7.4	10.0	10.3	9.2
Clerical and kindred workers	9.8	14.7	11.8	15.9	16.1	14.6
Sales workers	4.4	6.6	4.8	6.4	6.6	5.8
Blue collar	24.3	36.3	27.2	36.7	35.0	30.1
Craftsmen, foremen and kindred workers	8.6	12.8	9.6	13.0	12.8	11.4
Operatives and kindred	12.0	18.0	13.9	18.8	17.6	15.0
Laborers, except farm and mine ..	3.7	5.5	3.7	5.0	4.6	3.7
Service workers						
Service workers, including private household	8.3	12.5	9.7	13.1	13.7	12.6
Farm workers						
Farmers and farm managers, laborers and foremen	5.4	8.1	3.9	5.3	4.8	3.5

NOTE: Because of rounding, some totals may not equal the sum of the items listed.

Source: (9).

The work experience programs authorized under the Economic Opportunity Act, for example, can serve several functions in rural areas. They can provide on-the-job training to people unable to participate in formal occupational training courses. They can provide work opportunities for "boxed-in" rural people. They can extend employment for seasonal workers, thus increasing their annual incomes. And the programs may improve rural areas by increasing the variety of services and facilities. Other Federal programs have similar potentials.

The Manpower Development and Training Act training programs had about 45,000 rural enrollees out of 230,000 total enrollees in 1966. (9) Most of these 45,000 were in training occupations representing blue and white-collar jobs. However, these MDTA programs have not been accessible to many of our rural unemployed and underemployed. Only about 1 in 10 of these enrollees was in the farm work force prior to training in the institutional and on-the-job training phases of the MDTA program.

Vocational schools provide most of the institutional training for MDTA projects and thus advancements in vocational education are also strengthening the MDTA program. New area vocational schools may provide many new training opportunities accessible to rural youth. The number of these schools has increased from 405 in 1965 to 756 in 1966, and has been projected to nearly 1,000 in 1967. (10)

Needed Changes in Community Structure

To maintain, or in some cases regain, viable rural economies requires attention not only to people, but also to the communities in which they live. Particularly, we need to focus on the community services, facilities, and institutions which are a primary part of any environment and needed reorganizations that may have an impact on rural living. The time-distance relationships have changed since our rural areas were settled and trade and government units delineated. It has been suggested that the area which constitutes an effective community today is 100 times as large as it was in the early part of this century. (11)

Long needed spatial reorganizations may already be underway in some rural areas, but there is little evidence yet of new political units. However, in some areas special-purpose reorganizations have taken place. The multicounty Community Action agencies established under the provisions of the Economic Opportunity Act of 1964 and the multicounty development districts organized under the Public Works and Economic Development Act of 1965 may be the forerunners of other reorganizations. These reorganizations expand the community's economic, social, and geographic base, and thus more effectively serve the needs of rural people.

Some of the advantages of broadening the base through reorganization or consolidation of communities and local government units are:

1. Increased ability to finance new job-creating activities and reduced wasteful competition between neighboring communities for regionally oriented development activities;

2. The development of more adequate community facilities (e.g. for health and education);
3. Increased quality and efficiency of local government with full-time officials;
4. Greater utilization of technical planners and expeditors thus insuring balanced development and ultimately longer-lived, progressive rural communities;
5. Enlargement of the pool of capable leaders for community organizations.

Frequently, if a community can overcome the initial threshold problems and establish a viable economy, continued growth can be accomplished thereafter with less effort, and broadened bases provided through reorganization can often provide the initial impetus.

Summary

We have explored some of the human indicators of pressure on rural resources and the magnitude of the job creation effort that would be required if current trends in outmigration were to be reversed. Then we talked about the potential of the rural labor force to fill urban-type jobs should they be brought to rural areas. In exploring the potentials of the rural labor force we touched on the interaction between rural and urban people and the implications of these interactions in recruitment and training. And we dealt finally with reorganization that will be necessary if economic development and job creation programs are to be effective in revitalizing rural America.

We will now attempt to summarize the answers to our original questions.

If rural America is revitalized, rates of outmigration should be reduced.

The potential for job creation is perhaps the most serious question in the extent to which revitalization may occur, but changes in community structure could be instrumental in providing a broader base for development.

If jobs are brought to rural areas, with appropriate training, rural people can develop the skills to fill them.

1/ Persons who will reach the working-age group at some time during the decade and survive to the end of the decade. 2/ Persons who will leave the working-age group through death or reaching retirement age. 3/ The replacement ratio is the expected number of entrants into the age group 20-64 years per 100 expected departures resulting from death or from reaching retirement age, on the assumption of no migration during the decade. 4/ Includes Alaska and Hawaii. 5/ Excludes Alaska and Hawaii.

Source: (1).

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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR FEED

Talk by Malcolm Clough
Economic and Statistical Analysis Division
at the 45th Annual Agricultural Outlook Conference
Washington, D. C., 1:30 P.M., Tuesday, November 14, 1967

Larger feed grain acreage this year and a generally favorable growing season has produced a record 1967 feed grain crop of 176 million tons--12 percent above last year's near record output. The big crop and the large "free" carryover stocks have resulted in a record "free" supply--more than 10 percent larger than in 1966/67 and the largest of record. The big "free" supply of feed grains has resulted in a substantial decline in feed grain prices since last spring. With lower feed prices this fall and winter and more favorable livestock-feed price ratios, heavier feed grain consumption is in prospect for 1967/68. Exports will continue to meet with strong competition from foreign countries and may not be much different than in 1966/67. The big 1967 feed grain crop probably will be somewhat above our total requirements, and a moderate increase in the carryover is in prospect at the end of the 1967/68 marketing year.

The 1968 Feed Grain Program, announced on October 26, carries provisions for increasing the acreage diverted from corn and sorghums by reinstating voluntary acreage diversion for payment next year. As in past years, a minimum diversion of 20 percent will be required for participation in the program. As was the case in 1966, farmers will receive payments for diverting from 20 to 50 percent of their base corn and sorghum acreage to soil-conserving uses. Barley and oats are again excluded from the acreage diversion provisions of the program. The rate of payment for acreage diversion will be based on 45 percent of the total price support times the projected yield per acre. Increased diversion is considered desirable in 1968 in view of the record 1967 crop and prospects for an increase in stocks at the close of the 1967/68 marketing year. The target is for the diversion of about 30 million acres from corn and grain sorghum, 10 million more than in 1967. The program provides for the same level of price supports (\$1.35 per bushel for corn) for each of the feed grains as in 1967.

The total feed grain supply for 1967/68 is estimated at 213 million tons on the basis of October indications. This would be about 7 percent larger than last year but slightly below the 1961-65 average. While the total supply has declined since 1960/61, the "free" supply has increased to a record high of about 195 million tons--20 million larger than in 1966/67.

The domestic demand for feed is expected to continue strong in 1967/68. The total number of grain-consuming animal units to be fed is now expected to be a little above the post-war high of 178 million units in 1966/67. The more favorable livestock-feed price ratios in prospect will probably bring heavier

feeding per animal. Total domestic consumption may be around 5 percent above the 141 million tons consumed in 1966/67. Allowing for about the same level of exports, total utilization would increase to about 170 million tons. This would be about 6 million tons below the big 1967 crop which would indicate a carryover at the close of the 1967/68 marketing year around 6 million tons above the 37 million tons at the beginning.

Corn makes up an unusually large part of the 1967/68 feed grain supply. The corn supply for 1967/68 is estimated at a little over 5.5 billion bushels, a little below the record supply in 1960, but nearly 600 million bushels larger than in 1966/67. The 5 million acre increase in corn acreage this year, along with a record yield per acre, resulted in a crop of a little over 4.7 billion bushels. The carryover of corn totaled 817 million bushels, a little below a year earlier. Over half of the total carryover was "free" stocks which were the largest on record. Domestic consumption of corn in 1967/68 may be around 5 to 10 percent larger than in 1966/67. Exports also may be somewhat larger than in 1966/67, but they probably will remain well below the 687 million bushels exported in 1965/66. The total utilization of corn, however, probably will fall somewhat below the 1967 crop. Carryover into 1968/69 may be up by around 200 to 250 million bushels.

The sorghum grain supply for 1967/68 is estimated at 1,034 million bushels. This would be a little smaller than last year's supply and 160 million below the 5-year average. While sorghum grain production has increased during the past 3 or 4 years, carryover stocks have been reduced from over 600 million bushels in 1963 to 245 million this year. The record 1967 crop of 789 million bushels is expected to about equal our total requirements with little change in carryover in prospect for the close of the marketing year.

The oat supply, which has been trending downward for a number of years, dropped another 4 percent this year to 1,080 million bushels. This was the smallest supply since 1936 and will result in a further small reduction in domestic utilization. The barley supply is estimated at about 500 million bushels, practically the same as in the 2 previous years but 7 percent below the 5-year average.

The generally good demand for feed grains is expected to continue in 1967/68. The total number of grain-consuming animal units to be fed is expected to be a little above 1966/67. Livestock prices probably will be moderately higher. Feed prices are expected to be well below a year earlier, at least through the first half of the 1966/67 marketing year--which will encourage liberal feeding per animal.

Feed grain prices this year are much nearer the loan rates than they were in 1966/67. A substantial increase is expected in the total quantity placed under Government price support. Heavier domestic use and increased price support activity should result in a tightening of the supply situation later in the marketing year, and some seasonal rise in prices seems probable. Farmers' response to the 1968 Feed Grain Program and prospects for the 1968 crops, however, would be expected to have an important influence on prices next spring and summer.

Corn prices moved generally upward from 1961/62 to 1966/67 when prices received by farmers ranged from \$1.25 to \$1.29 per bushel during October-June. This was about 25 percent higher than the post-war low of 1960/61 and the highest in 12 years. With the record corn crop being harvested this year, prices have declined sharply since last spring. This fall prices are 20 to 25 cents lower than a year ago. Corn prices are expected to average substantially below a year earlier this fall and winter. Increased utilization, along with prospects for increased price support activity, are expected to strengthen prices later in the marketing year.

With the bumper crop this year, corn prices are much lower in relation to prices of most other feeds than they were in 1966/67. In October, the price of sorghum grain was about 90 percent of the price of corn compared with only 77 percent in October 1966. Prices of oats and barley are higher than corn per 100 pounds this fall, whereas in the fall of 1966 they were below corn prices. Lower corn prices are expected to result in relatively heavy disappearance in 1967/68, both for domestic use and export.

Livestock-feed price ratios, which were generally unfavorable for livestock feed producers during much of 1966/67, turned more favorable this fall. Corn prices probably will continue below average in relation to hog and cattle prices at least through the first half of 1967/68. Dairy product-feed price ratios are expected to continue well above average in 1967/68. Prices of eggs and broilers were below average in relation to feed prices throughout 1966/67, and continue relatively low this fall. Some improvement in these ratios seems probable later in the feeding year.

During the past 10 years, the quantity of feed grains and other feed concentrates fed per grain consuming animal unit has been influenced by the relationship of feed prices to livestock prices. With the very favorable livestock-feed price ratios in 1965/66, feeding rates increased sharply to a record high of 0.95 ton per animal unit. The rate of feeding per animal declined in 1966/67 with the less favorable feeding ratios last year. The more favorable livestock-feed price ratios in 1967/68 are expected to result in higher rates of feeding for both the total feed concentrates and high-protein feeds--probably increasing to near the 1965/66 levels.

The steady reduction in Government stocks of feed grains since 1961 brought Government carryover stocks into 1967/68 down to about 18 million tons, the smallest since 1953. While Government stocks have declined in recent years, "free" stocks have increased. Privately owned stocks carried over into 1967/68 are estimated at about 19 million tons--the largest "free" carryover of record. With the small stocks of feed grains remaining in CCC ownership in 1966/67, less than 3 million tons were sold by CCC during the October-September feeding year--down sharply from the 18 million tons sold in 1965/66. With the record feed grain crop this year and with small CCC stocks, sales of feed grains by CCC will continue comparatively small in 1967/68.

The steady decline in Government stocks in recent years resulted from the change in the Feed Grain Program which has reduced acreage so as to bring production below total disappearance. Feed grain prices have been above the loan

rates in most of the past 4 years, materially reducing the quantity going under loan and deliveries to CCC. The total quantity of feed grains placed under price support probably will increase in 1967/68 from the relatively low level of the past 3 years.

The total supply of high-protein feeds available for feeding in 1967/68 is now expected to increase to about 18 million tons. This would be about 3 percent more than last year and about 9 percent above the 1961-65 average. Practically all of the prospective increase is in soybean meal. With the smaller cottonseed supply, on the other hand, the production of cottonseed meal probably will be reduced 10 to 15 percent from last year's level, which was about a third smaller than the 1961-65 average. Supplies of animal and grain protein feeds may not change materially in 1967/68 from the levels of the past year. The quantity of high-protein feeds fed per animal unit is expected to increase to around 3 or 4 pounds above the 222 pounds fed per animal unit in 1966/67.

During the past 10 years there has been a steady increase in the demand for soybean meal and high-protein feeds. The improvement in demand has been especially pronounced for soybean meal. Soybean meal prices have advanced in relation to prices of most other protein feeds, even though supplies of soybean meal have been increasing. In 1966/67 soybean meal prices averaged about \$79 per ton at Decatur, slightly lower than in 1965/66 but otherwise the highest in 15 years. With prospects for larger supplies of soybean meal this year, soybean meal prices probably will average somewhat lower than in 1966/67, especially during the first half of the feeding year. With a continuation of short supplies, cottonseed meal prices are expected to continue above average in relation to soybean meal prices. Prices of fish meal and animal protein feeds have been relatively low this past year and continue comparatively low this fall.

After reaching a record high of over 29 million tons in the 1965/66 marketing year, exports of feed grains dropped sharply in 1966/67. Total exports fell to about 22 million tons but were still the second largest of record. The drop in exports was due largely to a return to average feed grain production in Europe and big supplies in Argentina and South Africa. Higher U.S. feed grain prices in 1966/67 also contributed to the decline. U.S. exports of feed grains will continue to meet strong competition from larger feed grain crops in Europe and from large supplies in surplus producing countries during the 1967/68 marketing year. Our total feed grain exports may not change much from the 1966/67 level. With lower corn prices this fall, larger exports of corn are in prospect--probably around 10 to 15 percent above the 488 million bushel export of 1966/67. Exports of sorghum grain, on the other hand, probably will fall below the heavy exports of the past 2 years when substantial quantities were shipped to India under the P. L. 480 Program. Exports of barley have been declining in recent years but are expected to be maintained at somewhere around the 45 million bushel level of 1966/67. Oat exports also have dropped off during the past 2 years, and in 1967/68 may continue about the same as in 1966/67.

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

THE OUTLOOK FOR LIVESTOCK AND MEAT IN 1968

Talk by Donald Seaborg
Economic and Statistical Analysis Division
at the Annual Agricultural Outlook Conference
Washington, D.C., 3:10 P.M., Tuesday, November 14, 1967

This year we are eating a little more than 175 pounds of red meat per person. This will be a new high in meat consumption, up from 170 pounds per person last year and slightly exceeding the previous record of 174 pounds in 1964. The larger consumption this year is due to consumption of more beef and pork, which will more than offset small reductions in consumption of veal and lamb.

Increased pork production this year contributed the greatest part of the gain in meat consumption. Pork production will be up about 10 percent from 1966. Consumption of pork will average more than 62 pounds per person, 4 to 5 pounds more than in 1966 and the largest consumption per person since 1964.

A moderate increase in beef production--around 2 percent, but a new record production in the United States--and a moderate increase in beef imports, will provide for beef consumption of 105 to 106 pounds per person this year. This will be close to 2 pounds more than in 1966 and a new record for beef consumption per person.

Thus, the production of pork and beef will be up enough in 1967 to more than offset reductions in the production of veal and lamb and to outpace the growth in population. As a result, we are eating more meat per person than ever before.

This year, production and consumption per person of total meat and of beef are reaching new highs. Prices received by farmers for cattle will be about the same as the 1966 average of \$22.20 per 100 pounds and higher than in other years since 1959. Prices received by farmers for hogs will average about \$19.25 per 100 pounds. Except for 1965 and 1966 when prices averaged \$20.60 and \$22.80, hog prices in 1967 have been the highest since 1958. Prices received for lambs, probably will average a little more than \$22 per 100 pounds, compared with \$23.40 in 1966 and \$22.80 in 1965. Except for these years, prices for lambs in 1967 will average higher than in other years since 1952. Prices received for calves probably will average a little higher than the 1966 average of \$26.00 and will be the highest since 1959.

Cattle

This year likely will mark the third year in which total cattle numbers have declined, but the declines have been much more moderate than in previous periods of declining cattle inventories. Of more importance, all of the decline

has been in dairy cattle; the number of beef cattle increased slightly last year and probably will again this year. However, cattle and calf prices have not been high enough to encourage large expansion in beef herds.

In the first half this year cattle slaughter under Federal Inspection was 4 percent larger than in January-June last year. The increase was due to slaughter of more steers (up 10 percent) and heifers (up 7 percent). Cow slaughter in the first half was 12 percent below a year earlier.

Since mid-year, however, cattle slaughter has been more nearly equal to year-earlier levels because of moderation in slaughter of steers and heifers. This also reflects the tempering that took place in marketings out of feedlots--from 6 percent above a year earlier in the first quarter, 9 percent above in April-June, to 2 percent above in July-September.

Fed cattle prices rose rather steadily from early spring to late summer, but weakened in the early fall. Choice steers at Chicago averaged \$24.70 per 100 pounds in April, \$27.60 in September and in October averaged around \$27.

Fed beef production in October-December will remain large and probably will be close to fourth quarter production last year. The increase of 2 percent indicated for number of head marketed out of feedlots will be partly offset by lighter slaughter weights. With continued strong consumer demand, fed cattle prices are expected to average around current levels (\$27, Choice steers, Chicago) the rest of this fall. This would be about the same as prices during the summer and about \$2 above prices last fall.

In 1968, cattle slaughter likely will be about as large as in 1967. Beef production in total probably will be about the same as this year, with a further shift toward a larger proportion of production in top quality grades. Cow slaughter likely will decline a little further in 1968, since cattlemen probably will continue to expand beef herds and culling from dairy herds likely will be a little less than this year.

Fed cattle marketings in January-March 1968 will be large, but any increase over a year earlier probably will be small. Fed cattle prices likely will be about the same as prices in the fourth quarter this year, moderately above the January-March 1967 average of \$25 for Choice steers at Chicago reflecting stronger consumer demand for beef.

In the spring next year, fed cattle marketings probably will be moderately larger than a year earlier. There were considerably more cattle on feed October 1 in weight groups that will reach market weights and finish during the spring. Therefore even a small increase in placements this fall that would reach slaughter weights next spring likely would lead to fed cattle marketings in April-June moderately larger than a year earlier. In this case, fed cattle prices would weaken in the spring from winter levels.

In the second half of 1968 fed cattle marketings will remain large but any increase over a year earlier probably will be small.

The cattle inventory probably is declining a little again this year. Based on various livestock statistical series now available, the reduction apparently is rather small. The January 1, 1968 inventory of cattle and calves may be down around 1/2 million head from the 108.5 million head on farms January 1 this year. The moderate reduction in the cattle inventory this year appears to be similar to the ones that took place in 1965 and 1966, with reductions in dairy herds slightly more than offsetting increases in beef herds. Between January 1, 1965 and January 1 this year, the number of dairy cattle on farms declined 2.7 million head and the number of beef cattle increased 2.2 million head.

Although the total cattle inventory next January 1 likely will be a little smaller than at the beginning of this year, beef production can continue near current levels in 1968 and 1969. This is possible because the number of beef cows on farms has been increasing even though the total cattle inventory has declined slightly due to reductions in dairy cattle. With more beef cows on farms, beef calf crops also increase. On January 1 this year there were 34.6 million head of beef cows on farms the largest number on record and the beef calf crop was larger this year than last. There likely will be some increase in the number of beef cows on farms January 1, 1968, and the beef calf crop also probably will be a little larger in 1968 than this year. Larger beef calf crops provide for continued high levels of beef production, or increases in production, even though total cattle numbers may be declining. However, beef production in 1968 and 1969 could not be maintained at much higher levels than in 1967 without larger reductions in total cattle numbers than have taken place during the last 3 years, and without reducing the beef production potential in the future.

Hogs

Commercial hog slaughter in 1967 likely will total about 10 percent more than in 1966 as a result of the expansion in pig crops (that began in late 1965). Compared with a year earlier, the increase in hog slaughter over a year earlier was sharper early in 1967 because slaughter early last year was unusually small. Slaughter later in 1966 had begun to increase as a result of stepped up farrowings in late 1965 and early 1966. Increases in farrowings moderated about mid-1967. The gains in slaughter over a year earlier, therefore, have been more moderate later this year. Commercial hog slaughter in July-September was 9 percent above the 1966 summer quarter, and by late this year probably will run near a year earlier.

With the increases in hog slaughter and pork production this year, hog prices have run considerably below the relatively high prices in 1966. Barrows and gilts at 8 markets averaged \$19.10 per 100 pounds in January-March 1967--down around \$7.60, or 28 percent, from the record high prices a year earlier.

Prices rose with the seasonal decline in slaughter last spring and summer, and reached the high for the year of \$22.60 in July (8 markets). This was \$2.50 below the July 1966 average. Prices weakened with seasonally larger slaughter in late summer and early fall. However, the margin under a year earlier increased. In September, barrows and gilts at 8 markets averaged \$19.50, \$3.70 below September 1966. Prices declined further in October, but the margin below a year earlier was smaller. Late this year hog slaughter is expected to run nearer a year earlier and prices may firm. In October-December 1966, barrows and gilts averaged \$20.40 per 100 pounds at 8 markets.

Slaughter supplies in January-June 1968 may be about the same to slightly smaller than in the first half of this year, but pork production may be slightly larger. Hog prices in the first half of 1968 are expected to be around the levels of a year earlier.

With lower feed costs, the relationship between hog prices and corn prices may continue to be relatively favorable to hog producers through the balance of 1967 and in early 1968. Thus, producers may be encouraged to increase the number of cows bred this fall and winter. Since July-December 1968 hog slaughter will reflect the size of next year's spring pig crop, any significant increase likely would result in a relatively sharp decline in hog prices in the second half of 1968, and in this event prices late in 1968 would average well below those this fall.

Sheep and Lambs

Sheep and lamb slaughter this year probably will be slightly smaller than in 1966. In the first quarter, slaughter was 14 percent larger than in January-March 1966. Slaughter has been below a year earlier since. Slaughter during the fourth quarter likely will be moderately smaller than in October-December 1966, since the lamb crop was down 6 percent and a larger portion of the lambs moving off grass in the summer went directly to slaughter.

Slaughter lamb prices have followed a generally normal seasonal pattern this year, rising from \$19.50 per 100 pounds at San Angelo in February to \$26.50 in early May. Prices declined to about \$21.50 in early September and strengthened about \$1 by late October. A stronger lamb market is expected during the rest of the year in contrast to last fall when lamb prices were steady to weak.

The inventory of sheep and lambs on farms likely will be down again on January 1, 1968. This will be the 8th successive year of decline and the lowest on record. The lamb crop also will be smaller in 1968. Lamb slaughter is expected to be down from this year, and prices probably will be higher.

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service
OUTLOOK FOR
CONSUMPTION, PRICES AND EXPENDITURES FOR FOOD

Talk by Stephen J. Hiemstra

Economic and Statistical Analysis Division
at the Annual Agricultural Outlook Conference

Washington, D.C., 1:30 P.M., Tuesday, November 14, 1967

Summary

Prices for food at retail food stores this year are averaging about the same as in 1966. Prices increased in the third quarter after having declined during the first and second quarters. Restaurant food prices this year are averaging around 5 percent above the 1966 level. In total, retail food prices in 1967 are averaging about 1 percent above a year earlier. The increase for food compares with more than a 3-percent increase for nonfood consumer prices (including services).

In 1968, retail food prices are expected to advance more strongly than in 1967. An increase of perhaps 2 to 3 percent appears likely at this time. Demand for food is expected to continue upward in 1968, but supplies are not expected to expand. As a result, prices received by farmers for food products may increase. Per capita food consumption this year is increasing about $1\frac{1}{2}$ percent above the 1966 level, but little change is likely in 1968. Also, continued advances in prices in the nonfood sector of the economy are expected to cause increased marketing costs, which ultimately will be reflected in retail food prices.

Total food expenditures, which are increasing about 4 percent this year, probably will climb a like amount in 1968 (fig. 1). Food expenditures did not increase as rapidly as consumer income in 1967. As a result, the percentage of income spent for food declined from 18.3 percent in 1966 to about 17.7 percent in 1967. In 1968, this percentage probably will hold about the same as in 1967.

Food Expenditures

Food expenditures this year are expected to total about \$96 $\frac{1}{2}$ billion, up from \$93 billion in 1966. Most of the gain this year is due to an increase in volume of purchases. But, most of the increase in food expenditures in 1968 likely will be due to price increases, with little rise in volume.

Sales by the total retail trade in recent months have averaged around 4 percent above a year earlier (fig. 2). Most of the increase took place during the second quarter of this year. Previously, retail sales had been on a plateau despite advancing prices. More recently, some of the increase in sales represents volume gains.

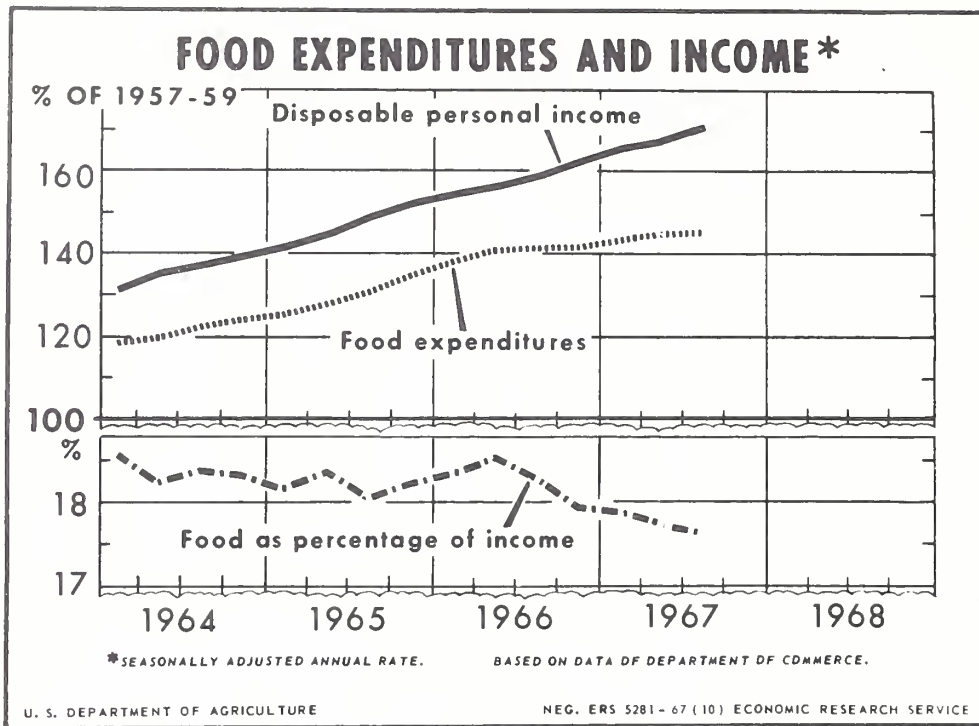


Figure 1

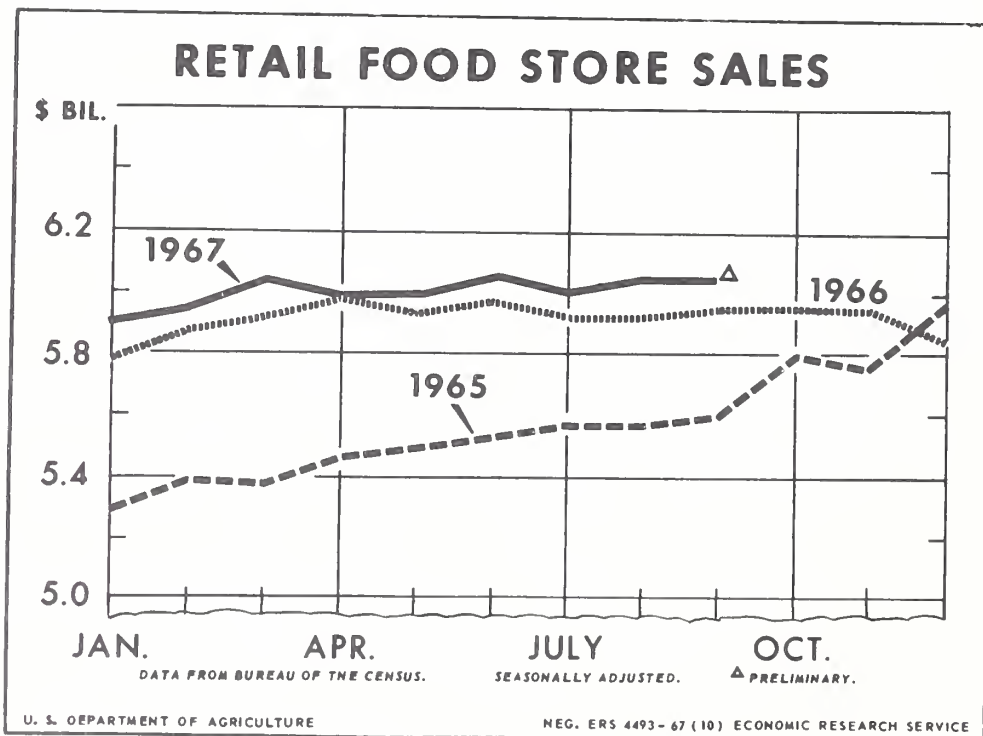


Figure 2

These data reflect some upturn in overall consumer activity in recent months. The advance to date has not been strong but expected growth in the general economy likely will result in some acceleration in consumer incomes and purchases in the months ahead. The rate and timing of this advance depends on such things as the extent of the rise in prices (and consumer reaction to the increases), the number and scale of labor disputes, and prospects for an increase in taxes. Consumer savings continue at a relatively high rate but consumers again are increasing their use of installment credit.

Sales by retail food stores lately have followed the same general pattern as sales by the total retail trade (fig. 3). But, sales by food stores in recent months have averaged only 1 or 2 percent above a year earlier. This increase is not as large as for the total retail trade, nor has the recent gain been as strong. In fact, sales by retail food stores this summer have not increased as much as food prices.

On the other hand, sales by eating and drinking places have expanded significantly this summer, following several months of relatively small increases. August sales were 7 percent larger than a year earlier and up 2 percent from July. A large part of this increase has been due to higher prices but part of the gain appears to be due to a rise in volume.

Retail Food Prices

Retail food prices rose 2 percent during third-quarter 1967 (fig. 4). The increase more than offset the previous decline that began late in 1966 and carried into the second quarter of this year. Third-quarter prices averaged about 1 percent above a year earlier. But, prices at food stores were practically the same as a year earlier. All of the price increase was due to 5-percent higher prices for food away from home.

Typically, there is a seasonal decline in the fourth quarter. Such a decline is not likely this year even though wholesale prices for farm products have been weak (fig. 5). Rising costs of marketing likely will offset lower wholesale prices. On balance, retail prices likely will be about stable or perhaps even slightly higher than in the third quarter.

For the year as a whole, retail prices in food stores are averaging about steady with 1966. Prices for all livestock food products are averaging about 1 percent lower this year than in 1966. Prices are substantially lower for eggs, poultry, and pork products, but prices for dairy products and fish are averaging higher than in 1966 (fig. 6). Prices for food from crops are counterbalancing the lower livestock prices. Crop food prices in 1967 are averaging about 1 percent higher than in 1966. Higher prices for potatoes, fresh fruits, sugar and sweets, and cereal and bakery products are more than offsetting lower prices for processed citrus fruits, coffee, and fats and oils (fig. 7).

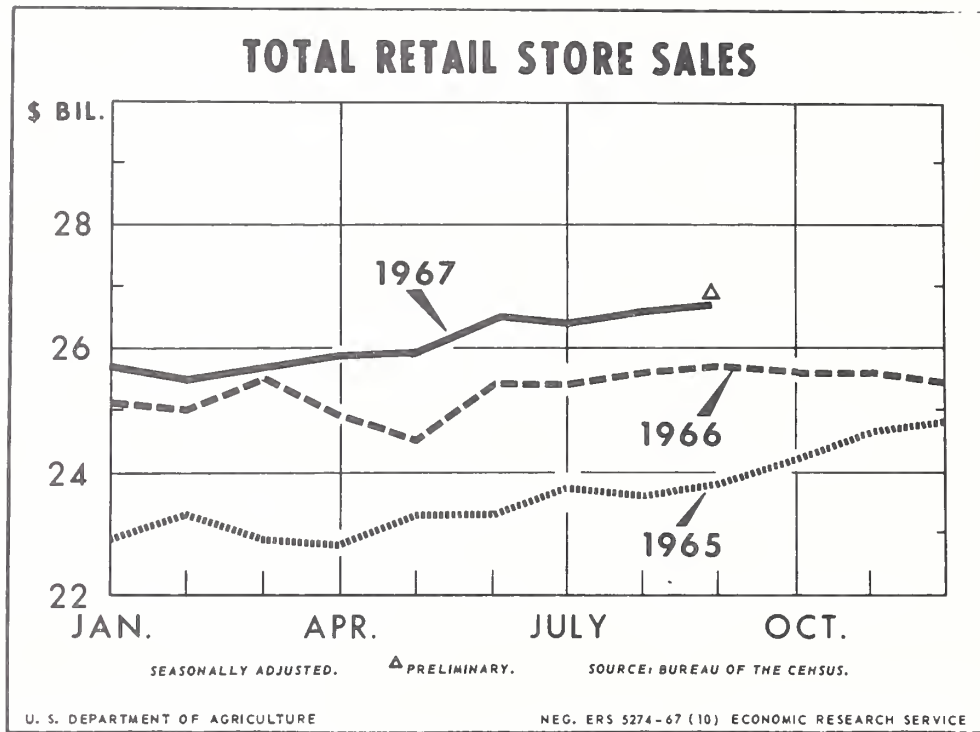


Figure 3

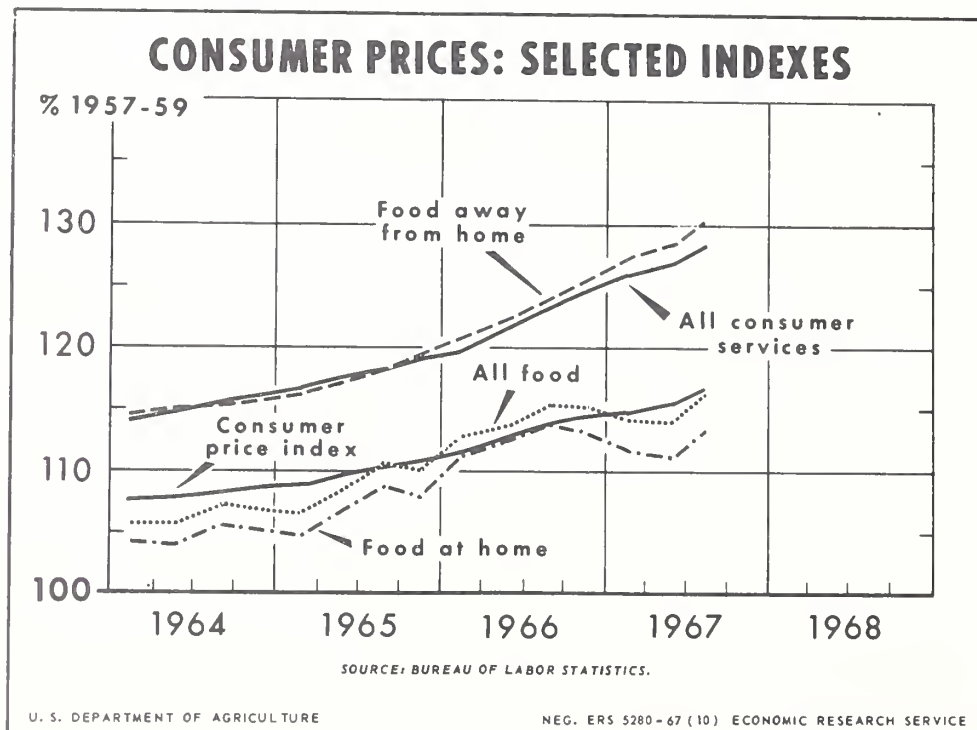


Figure 4

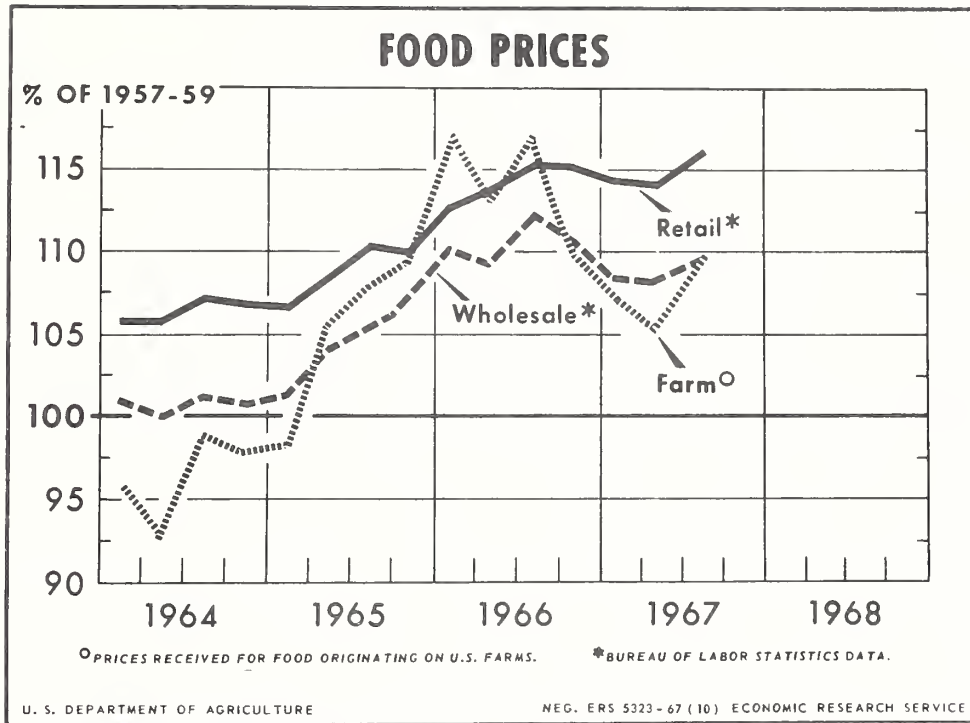


Figure 5

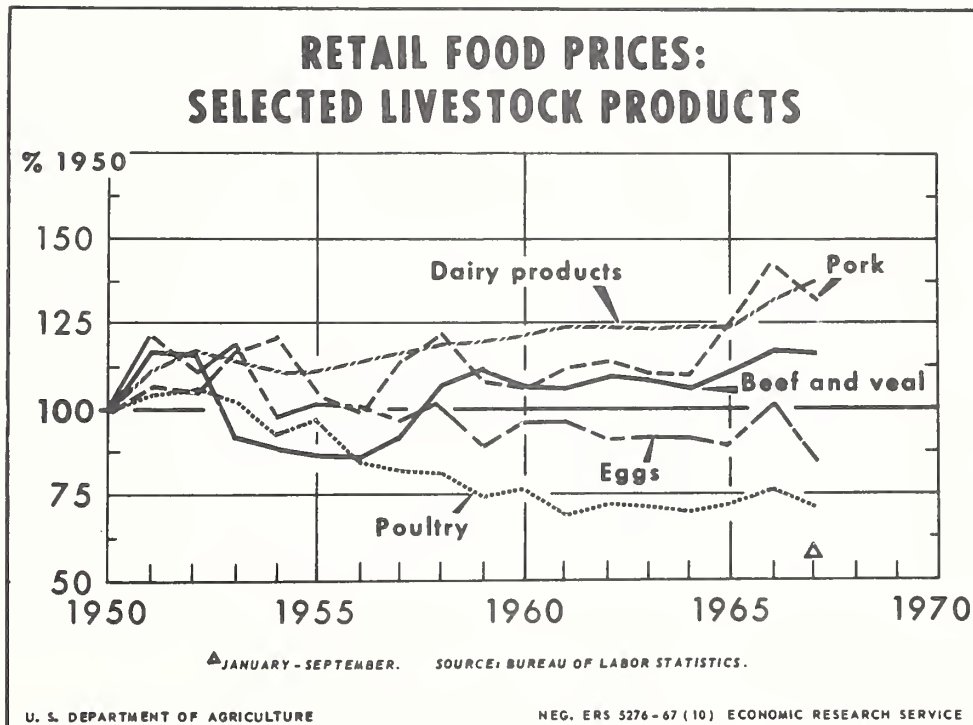


Figure 6

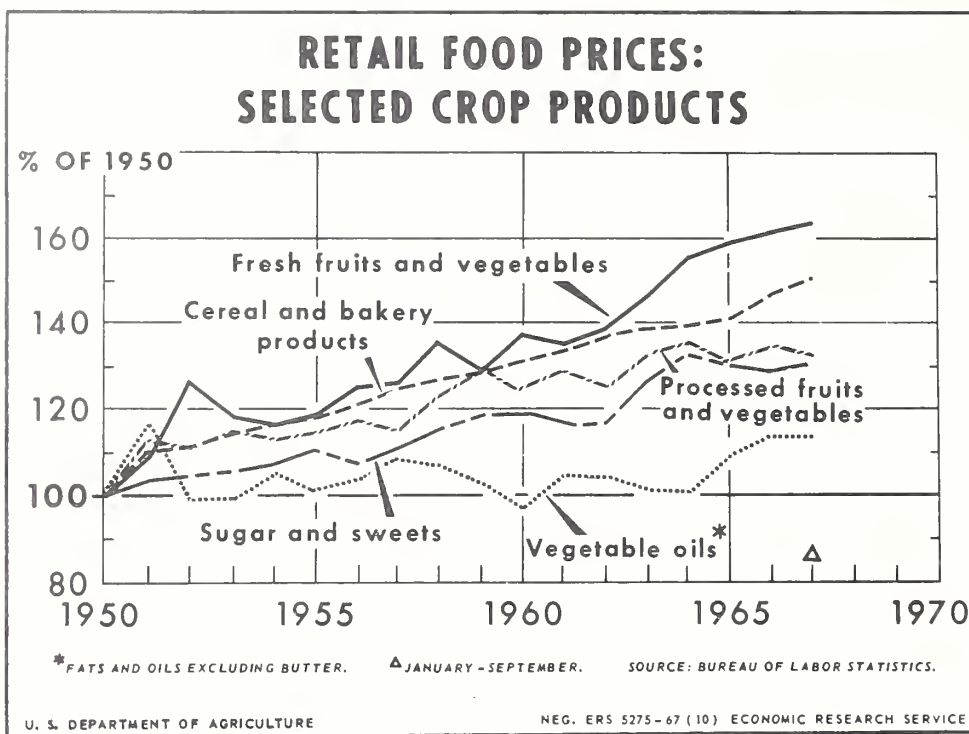


Figure 7

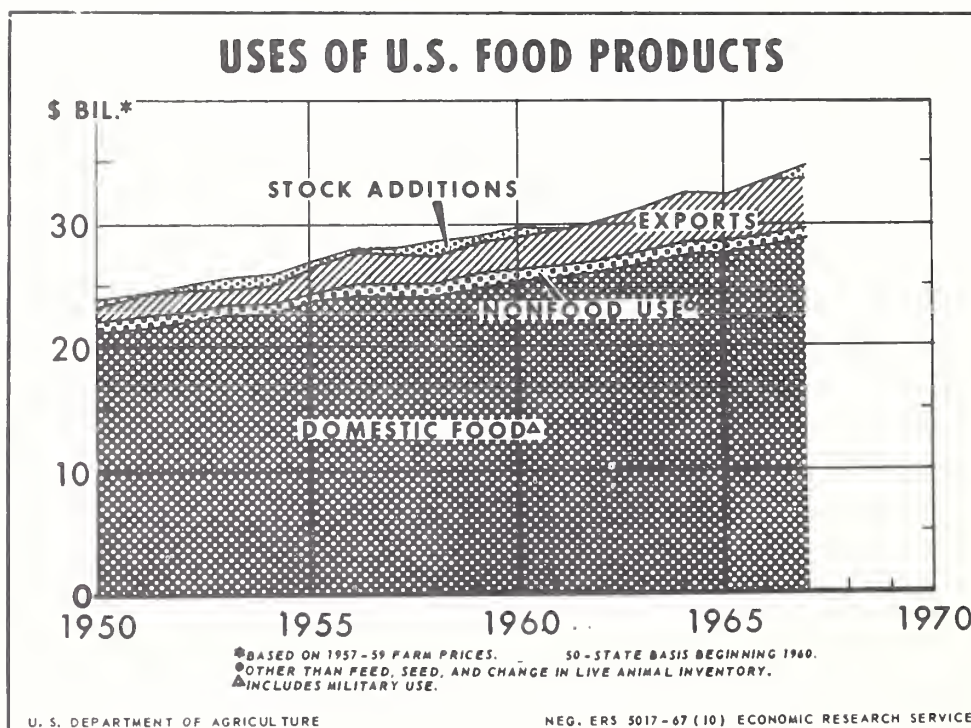


Figure 8

Prices for food purchased in restaurants and other away-from-home establishments are averaging about 5 percent higher this year than in 1966. Since these prices represent about one-fifth of the total Retail Food Price Index, overall food prices are advancing about 1 percent in 1967. This 1-percent increase compares with more than a 3-percent increase taking place for nonfood consumer prices (including services). As a result, food prices are contributing to price stability in 1967. Such was not the case in 1966.

Retail food prices likely will increase noticeably in 1968. Some increase in prices for farm products is expected to be reflected at retail. In addition, farm-retail margins likely will resume their previous advance. These margins held steady during the first 3 quarters of 1967, at about 1 percent below the level in fourth quarter 1966. These stable margins cut into profits of food marketing firms. However, it is doubtful that this trend will continue much longer. Widening farm-retail margins are likely in 1968 as a result of an expected increase in wages and prices for other inputs of food marketing firms.

Uncertainties surrounding the future volume of farm marketings and the amount of increase in nonfood prices make it difficult to tie down a precise estimate for food prices in 1968. The best estimate at this time suggests a rise of 2 to 3 percent from 1967. This estimate assumes little overall change in output of food commodities and an increase in nonfood consumer prices of around 3 percent.

Supply and Utilization of Farm Food Commodities

Total civilian food use this year is advancing more than 2 percent from the 1966 level (fig. 8). Military food takings also are larger than last year, but exports and nonfood uses are declining from 1966 levels. As a result, utilization of farm commodities this year likely will total about the same as in 1966. The use of total crop food products is less than in 1966, since there was a smaller carryover from 1966 crops. But, the total use of livestock products is much larger this year than in 1966.

Despite stability in total utilization of farm food commodities in 1967, net production expanded by around 7 percent (fig. 9). Larger imports also added to supplies in calendar year 1967. Consequently, total stocks of food commodities at the end of December 1967 likely will be around a tenth larger than a year earlier, slightly above the level of 2 years earlier.

Total utilization of farm food commodities is expected to turn up again in 1968. However, the distribution among alternative outlets in 1968 is expected to differ significantly from this year. Most of the increase in 1968 utilization is expected to be for crop food commodities. In part, it reflects the large carryover from sizable 1967 crops into the next calendar year. Exports are expected to expand next year, and military food takings again may be larger. This would leave total civilian food use in 1968 not much different from the overall level in 1967.

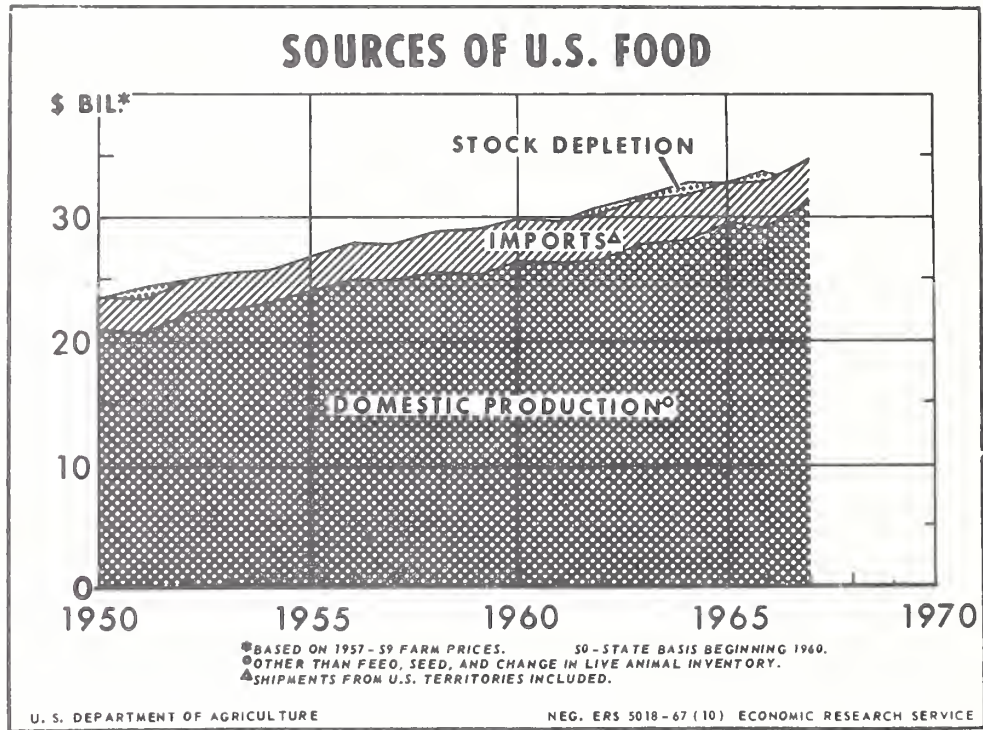


Figure 9

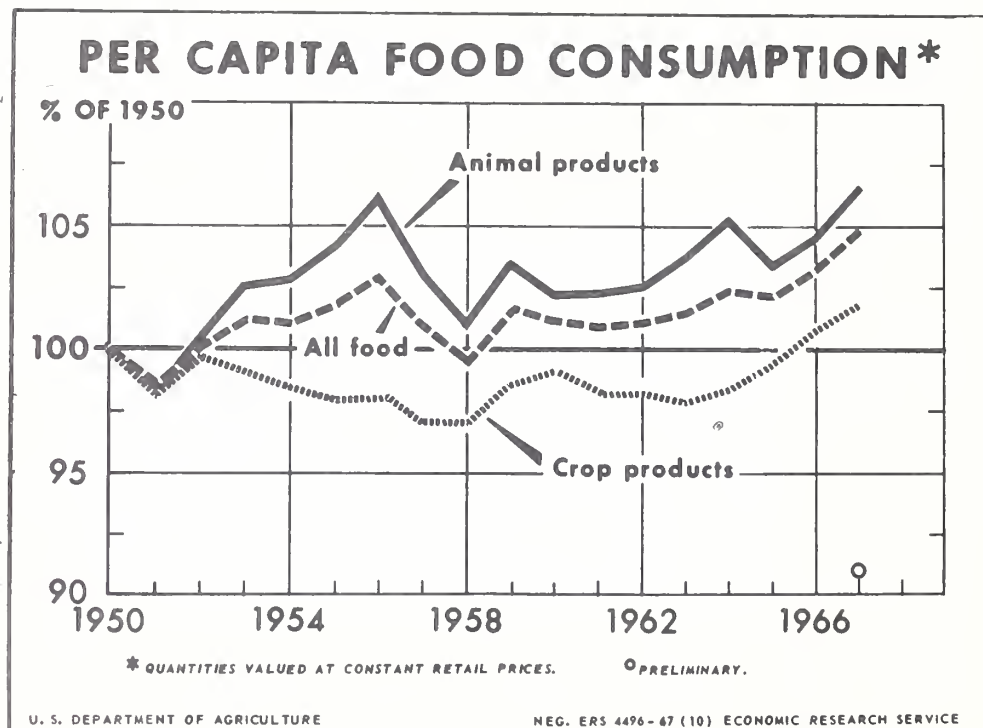


Figure 10

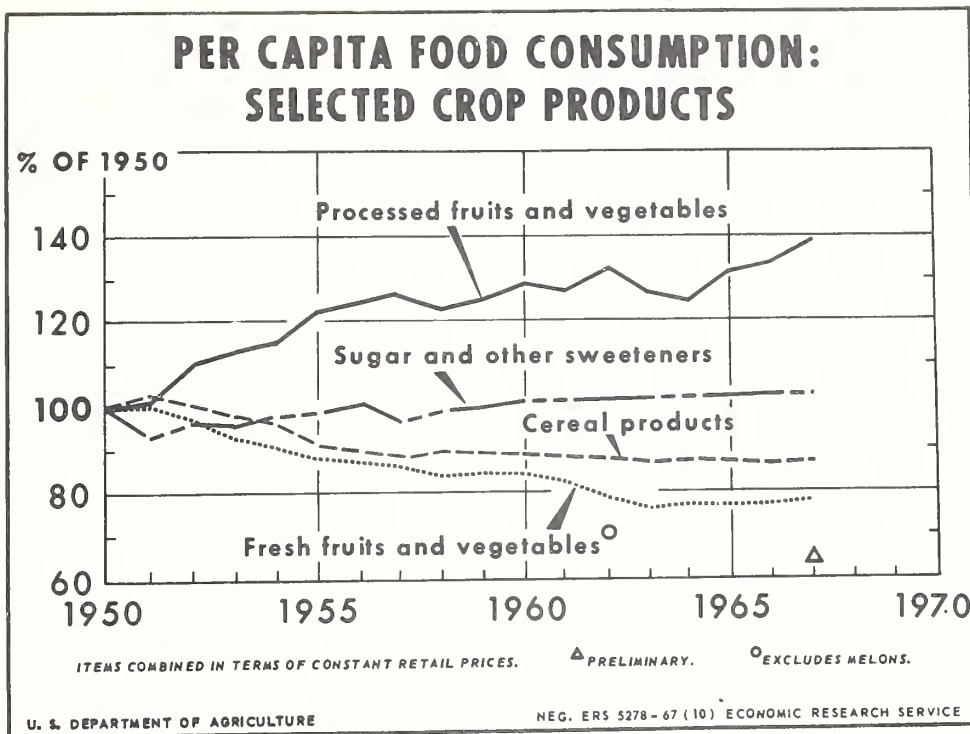


Figure 11

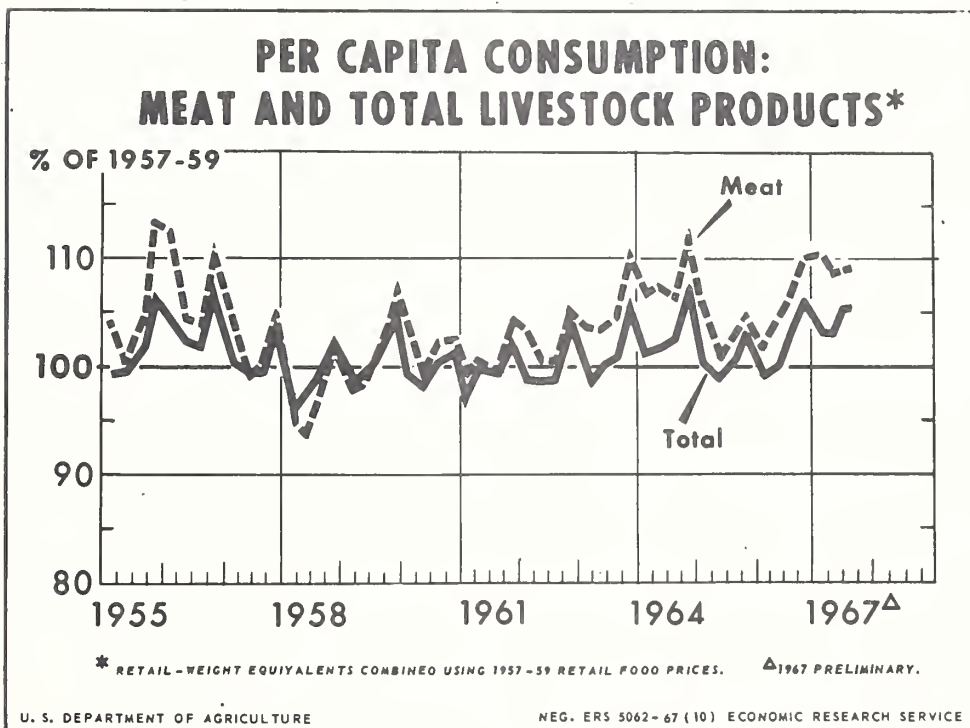


Figure 12

Per Capita Food Consumption

The per capita food consumption index is increasing about $1\frac{1}{2}$ percent in 1967, but little change is expected in 1968 (fig. 10). This year, substantial increases are taking place for most livestock and crop products. Consumption in 1967 is much larger for beef, pork, poultry, eggs, citrus fruits, potatoes, and fresh vegetables. But, in 1968, per capita consumption is not likely to be larger for any of these products, except for chicken. Consumption in 1967 is lower for dairy products, veal, lamb, deciduous fruits, and melons (fig. 11). In 1968, veal and lamb consumption again are expected to decline.

Per capita consumption in 1967 is totaling around 1,434 pounds per capita on a retail-weight equivalent basis. This is an increase of 12 pounds over 1966. In terms of food energy, consumption this year is averaging about 3,180 calories per capita per day, up only fractionally from 1966. Among nutrients, the increase in consumption is contributing to a 3-percent per capita increase in vitamin A value and a 5-percent rise for ascorbic acid. Part of the increase in food consumption in 1967 is due to an increase in donation programs. USDA direct food distribution programs alone are accounting for about 1 pound of the 12-pound increase in consumption.

Quarterly data show that consumption of total livestock products in the first 3 quarters of 1967 was 3-percent larger than the same period of 1966 (fig. 13). Less of an increase is likely during the fourth quarter. Meat, poultry, and eggs each participated in the large rise in consumption that was especially evident during the first part of 1967. Meat consumption likely is dropping to around year-earlier rates in the fourth quarter, and in 1968 may average around 1967 levels. Poultry and egg consumption were both well above a year earlier throughout 1967 (fig. 13). Broiler consumption likely will continue above 1967 levels throughout 1968, but turkey consumption likely will be lower. Sharp price declines for eggs are resulting in a cut in the total egg laying flock. As a result, per capita consumption likely will be lower in 1968.

Milk production in 1967 is totaling about the same as a year earlier, but consumption of fluid milk and most other dairy products is averaging significantly lower than in 1966 (fig. 14). The drop is the result of higher retail prices and a continuing decline in demand. However, little further decline is expected in consumption of dairy products in 1968. Lower consumption this year is due to lower commercial sales of dairy products. USDA donations were increased considerably this year when stocks of manufactured dairy products accumulated at support price levels.

Per capita consumption of total fruits in 1967 is well above that in each of the previous 4 years. The increase is due primarily to a much larger citrus crop last winter. However, most deciduous fruit crops were cut significantly this year and a smaller crop of citrus fruits is in prospect this winter. As a result, total supplies of fruit this winter are expected to be smaller. Higher prices are likely for most items, both fresh and processed.

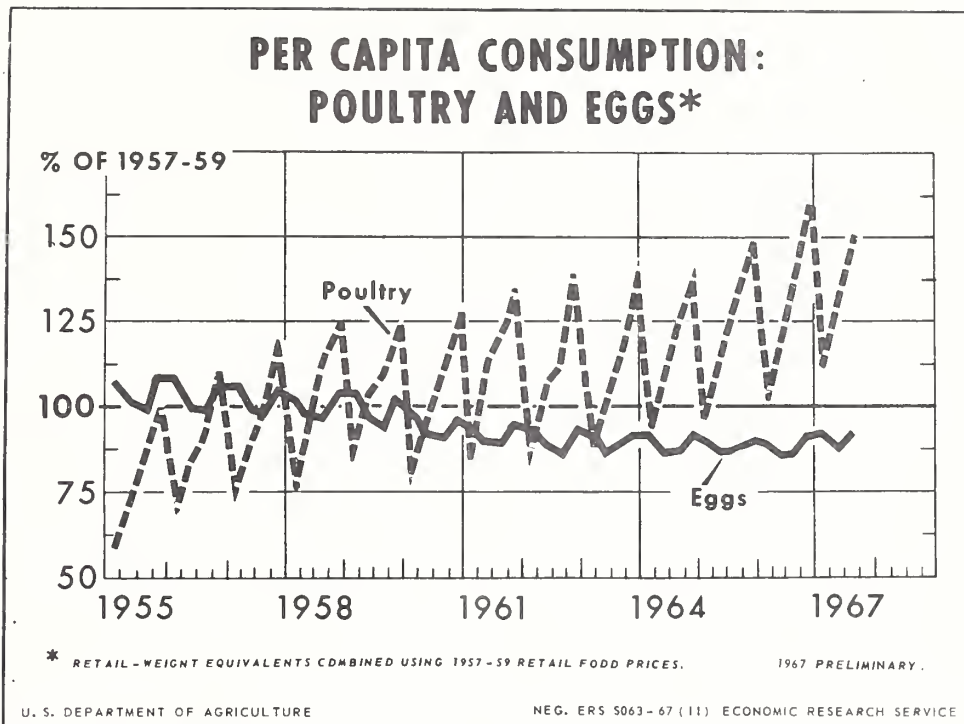


Figure 13

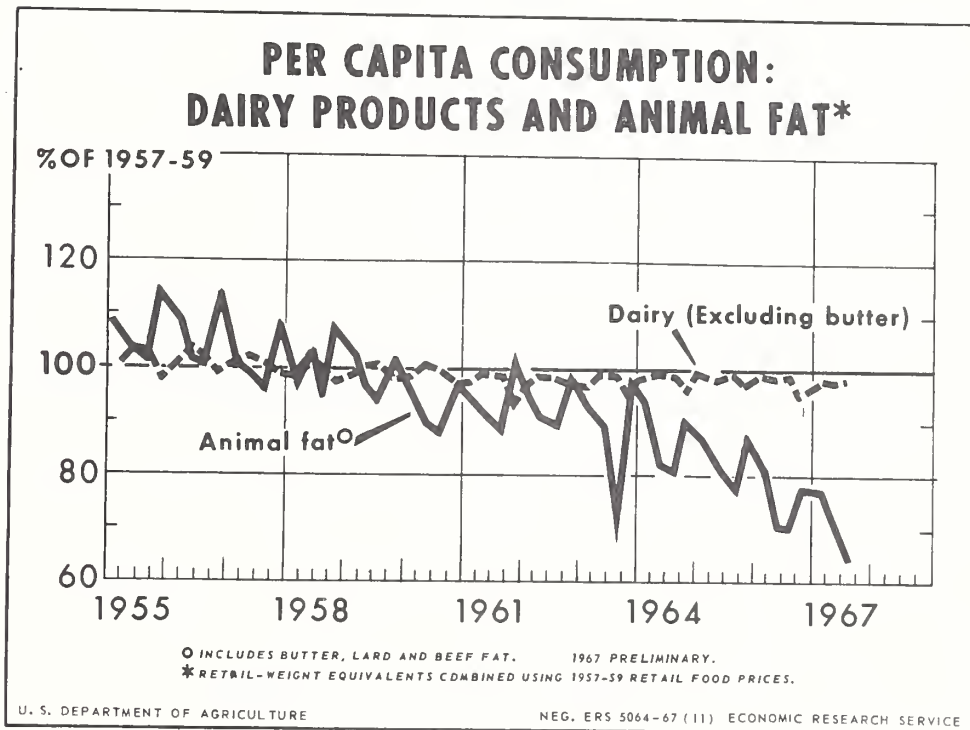


Figure 14

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

EXPENDITURES FOR FOOD AWAY FROM HOME

Talk by Corinne Le Bovit
Economic and Statistical Analysis Division
at the Annual Agricultural Outlook Conference
Washington, D.C., 2:15 P.M., Tuesday, November 14, 1967

Several sources provide data on expenditures for food away from home in the United States. Time-series data for consumer purchases of meals and beverages are published annually by the Department of Commerce.^{1/} Cross-sectional data are available from surveys of family consumption. This discussion is based on nationwide household food consumption surveys conducted by the Department of Agriculture in 1955 ^{2/} and 1965 ^{3/} and on per capita expenditures computed from Department of Commerce data. Some data from the 1963 Census of Business and from Survey of the Market for Food Away From Home ^{4/} also are presented to give a clearer picture of the away-from-home market.

Most (about six-tenths) of the approximately \$30 billion away from home food and beverage bill is spent in eating and drinking places which include restaurants, lunchrooms, cafeterias, refreshment stands, and catering establishments. The next highest share of the bill (about two-tenths at retail prices) goes to institutions such as hospitals, homes for the aged or for children, colleges, religious homes, camps and schools. A fair amount of eating (one-tenth) is done at hotels and motels. The remainder of the away-from-home food bill is scattered among a great variety of establishments each of which takes less than 3 percent of the total. These places include drug, candy, and department stores; specialty food stores such as delicatessens, bakeries, and dairies; movies, pool halls, and other places of recreation; private clubs; and factories and other business establishments.

There is a small regional variation in the pattern of eating out. Southerners spend a slightly higher proportion of their away-from-home dollars at cafeterias and drug stores and a smaller proportion in restaurants than northerners or westerners. Westerners spend the highest proportion in restaurants.

^{1/} U.S. Department of Commerce, Survey of Current Business.

^{2/} U.S. Department of Agriculture, ARS and AMS, Household Food Consumption Survey 1955, Reports 1-5.

^{3/} U.S. Department of Agriculture, ARS, Money Value of Food Used by Households in the U.S., Spring 1965. Preliminary Report; and unpublished data.

^{4/} U.S. Department of Agriculture, ERS, Survey of the Market for Food Away From Home. A Preliminary Overview of Basic Tabulations from Phase I of the Survey.

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DIVISION OF ACQUISITIONS

Trends in Expense
for Eating Out

The total consumer bill for purchased meals (including alcoholic beverages) has risen at a faster rate than the population has grown. Expense per capita increased steadily since the early 1950s, and accelerated after 1963 (figure 1). When these expenditures are expressed in constant 1958 dollars the picture changes to one of decreasing per capita expenditures up to 1961 and a steady increase after 1963. By 1966 the average was slightly above the earlier peak in 1953. Nonpersonal expenditures such as business firms' purchases of meals and beverages--which probably increased significantly--are not included in these data.

Prices for food eaten away from home rose much faster than total expenditure up to the mid-1960s. As shown on figure 2 the index of prices for food away from home increased more rapidly than indexes for food at home or for all items in the Consumer Price Index. An explanation of this rapid rise is indicated in figure 3 which covers the last few years. Changes in prices of food away from home have followed changes in prices of all consumer services. Both have risen more rapidly than most other components of the Consumer Price Index. Prices of meals in public eating places are greatly affected by nonfood costs such as wages and salaries, rent and other property cost, taxes, maintenance, and equipment.

The proportion of total consumer expenditure for food and beverages that went for meals out, according to the Department of Commerce data, was around 20 percent over most of the period since 1950, although some increase has taken place since 1964. Apparently families adjusted to higher prices by keeping fairly constant the percentage of their food dollar allotted to eating out.

Data from the two national household food consumption surveys generally support the trend in the Commerce data. Families in the United States spent an average of about \$6 a week in the spring of 1965 and a little less than \$5 in 1955 on food and beverages (including alcoholic drinks) purchased and eaten away from home (figure 4). This amounted to \$97 per person for the year 1965 and \$74 for 1955, assuming that expenditures in other seasons were the same as in the spring (figure 1).

Expenditures for food away from home in the surveys include the bill for food and alcoholic beverages, plus taxes and tips paid at public eating places, carry-out shops, hospitals, and schools by all members of the families surveyed for themselves and their guests. The surveys were primarily studies of food used at home. As a result households in which no one had eaten at least 10 meals at home during the previous week were excluded. Therefore, eating out was understated by the exclusion of those eating most of their meals out. The fact that the survey data were collected only in spring may also lead to understatement of expenditures for the year to the extent that eating out is more prevalent during vacations in the summer and holidays in the fall. Since the homemaker was usually the person interviewed she may have underreported expenditures by other family members particularly for away-from-home drinking.

The change during the decade represented by the surveys was not the same for meals as for snacks. (Snacks were defined as away from home purchases of between-meal food and beverages or beverage supplements to meals carried from home.) Most of the increased spending was for meals; very little was for snacks (figure 5). The proportion of families reporting snacks bought and eaten away from home decreased from 6 out of 10 in 1955 to a little under 5 out of 10 in 1965. During the same period, consumption of snack-type foods at home increased in popularity. Households reported considerably higher home consumption in 1965 of soft drinks, punches and ades, potato chips, crackers, cookies, doughnuts, ice cream, candy, and peanut butter. Even the greater use of cheese and lunch meats may in part be due to more home snacking. The continuing move to the suburbs, the increased proportion of children in the population, and the increased popularity of television may have led to a shift from snacking at the candy store and lunch counter to snacking at home in the recreation room; around the television set, or by the ice cream truck. Candy stores are less accessible in suburbia and there are fewer visits to the movies or long trips to downtown shopping areas. Instead, mother stocks the pantry, refrigerator, and freezer with tempting tidbits and family members help themselves and serve their guests.

Urbanization Differences

In both 1965 and 1955 urban families spent more dollars and a higher proportion of the food and beverage dollar for meals eaten out than did farm families (figure 6). However, expenditures for meals eaten out more than doubled between 1955 and 1965 for farmers and increased only by one-fourth for city-dwellers. Thus rural-urban differences were much less in 1965 than in 1955.

Similarly city families spent the most for snacks, farm families the least. In 1965 city dwellers spent no more on snacks away from home than they had in 1955; but farmers spent one-fifth more. Fewer households in each urbanization reported buying snacks in 1965 than in 1955. The average expense for those households buying snacks was higher in 1965 for each group but the increase was greater for farm than for city families. The trend appears to be toward less frequent purchase of snacks but toward higher expenditures for those purchasing.

Regional Differences

Expenditures for meals away from home in 1965 was highest in the Northeast and the West and lowest in the South (figure 7). The proportion of households reporting buying meals was about the same in each of the four regions (55 to 60 percent). Higher expense, therefore, meant either more meals purchased or more expensive meals. The survey data do not provide this information.

Compared with 1955, families in the South increased their expenditures for meals eaten out much more than those in the rest of the country. Southern spending for meals rose over 75 percent during the decade compared to about a 30 percent rise in the Northeast and West and only 20 percent in the North Central region.

Northeastern families also spent the most for snacks away from home in 1965. The next highest spenders were in the South and the lowest in the West. However, when data were inspected by urbanization as well as by region, southern farm families were found to spend more for snacks (\$1.25 on the average) than farm people in the rest of the country (under \$1.00).

Income Differences

As expected high-income families spent more for food away from home in Spring 1965 than did those with low incomes. They also allotted a much larger proportion of their food and beverage dollar to eating out--26 percent for those with incomes over \$10,000 compared to 9 percent for those with incomes under \$3,000.

Expenditures for meals eaten out were more closely related to family income than expenditures for snacks (figure 8). Families with incomes over \$10,000 spent nearly 10 times as much for meals eaten out as did those with incomes under \$3,000, but less than 5 times as much for snacks.

Income-expenditure relationships for meals were the same for city as for farm families at incomes under \$5,000, but as incomes rose above \$5,000 expenditures for eating out rose more rapidly for city-dwellers than for farmers.

Between 1955 and 1965 the income relationships for urban families changed little. However, for farm families expense for meals was more closely related to income in 1965 than in 1955.

Household Size Differences

Average expense for meals out in 1965 bore little relationship to the number of persons in the household (figure 9). Families of 3 or 4 persons spent a little more than those with more or less people. Fewer one and two-person households reported buying meals out. But their expenditures based on those reporting such an expense was somewhat larger. One-person households that bought meals spent an average of \$10 a week; 2-person households spent \$8.80 and 3-person \$8.70. Expenditures were unrelated to the size of family in households with four or more persons. Data from the earlier survey indicate that larger households buy a lower percentage of their total meals away from home and also spend less per meal.

Expense for snacks was related to family size but per person expenditure varied. Six-person households spent four times the fifty cents spent by one-person households. Larger households seem to respond to demands on their income by eating out less often or by eating less expensive meals but they are a little more relaxed about small sums spent on snacks away from home.

Meals Without Direct Expense

One-third of the families in the United States reported receiving some free meals during the survey week in spring 1965. The term, free meals, should not evoke pictures of soup kitchens. Most free meals are received as guests in other people's homes or, in some cases, as guests at public eating places. They may also include meals paid from expense accounts and those received free at work or at school.

Cross-sectional differences in proportions of families reporting free meals were not great. Differences in actual numbers of meals received may have been somewhat greater than in the percentage reporting any such meals. Among the urbanization groups the greatest proportion of families reporting free meals was among rural nonfarm families, the lowest was on farms. There was little regional difference among rural families, farm or nonfarm, but some for city families. More western city families reported meals as guests; north central and southern families came next: northeastern urbanites were the lowest.

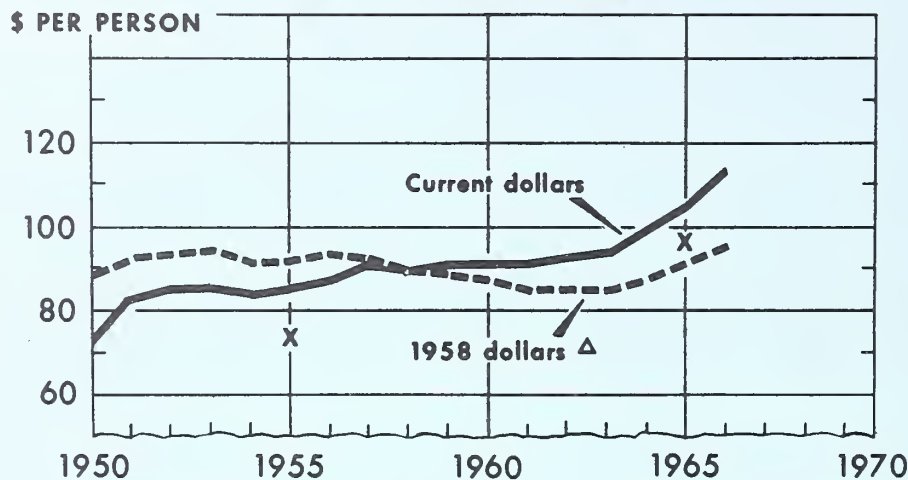
The proportion reporting free meals did not vary with family income nor with household size except that somewhat more one-person households were invited out. Homemakers may readily add one place at the family table but may be more hesitant about inviting three or five or more people to dinner.

Summary

Total expenditures in constant dollars for food away from home changed little during the 1950s and early 1960s. But since 1963 there has been a steady increase. However, these trends apply only to personal consumption expenditures, so may understate the entire market. Families seem to have adjusted to rising prices by snacking at home rather than at public eating places and by dining out very little more. Changes in living patterns such as suburban tendencies to entertain at home and television snacking may also have been responsible for these trends.

There has been a trend toward farm families behaving more like city families (although farm expenditures for eating out are still the lowest), and toward southern families responding more like the rest of the country (although expenditures in the South are still the lowest). Farm family expenditures for eating out are more closely related to income in 1965 than in the earlier survey. Apparently both regional and urbanization differences are diminishing.

COST OF FOOD AND BEVERAGES AWAY FROM HOME



△ DERIVED USING IMPLICIT PRICE DEFLATORS.
X USDA HOUSEHOLD FOOD CONSUMPTION SURVEYS, SPRING.

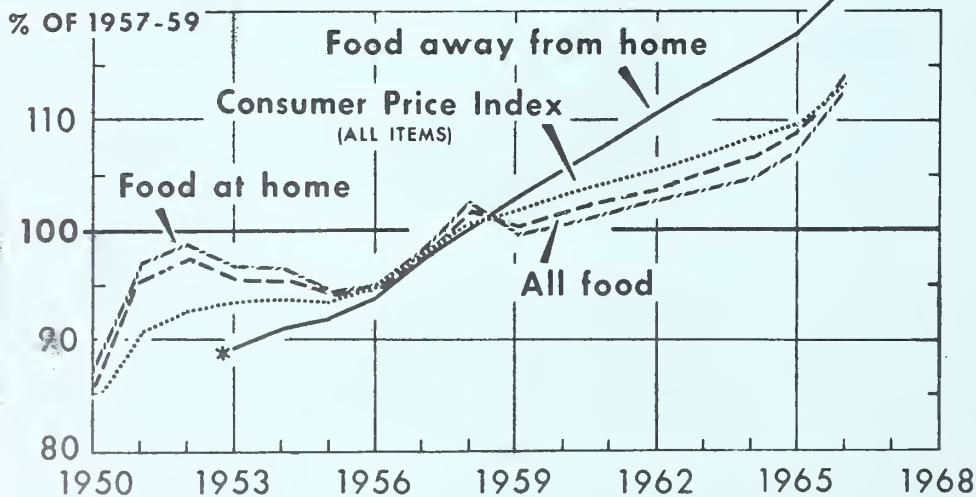
SOURCE: DEPARTMENTS OF COMMERCE
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NEG. ERS 5407-67 (10) ECONOMIC RESEARCH SERVICE

CONSUMER PRICES

Urban Wage Earners and Clerical Workers

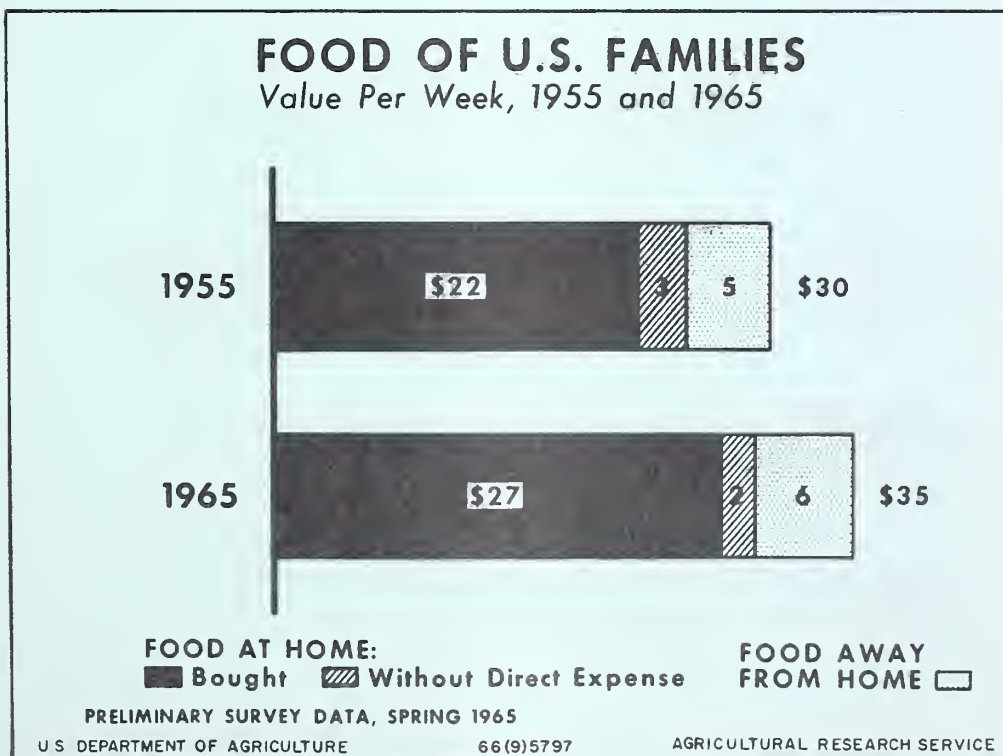
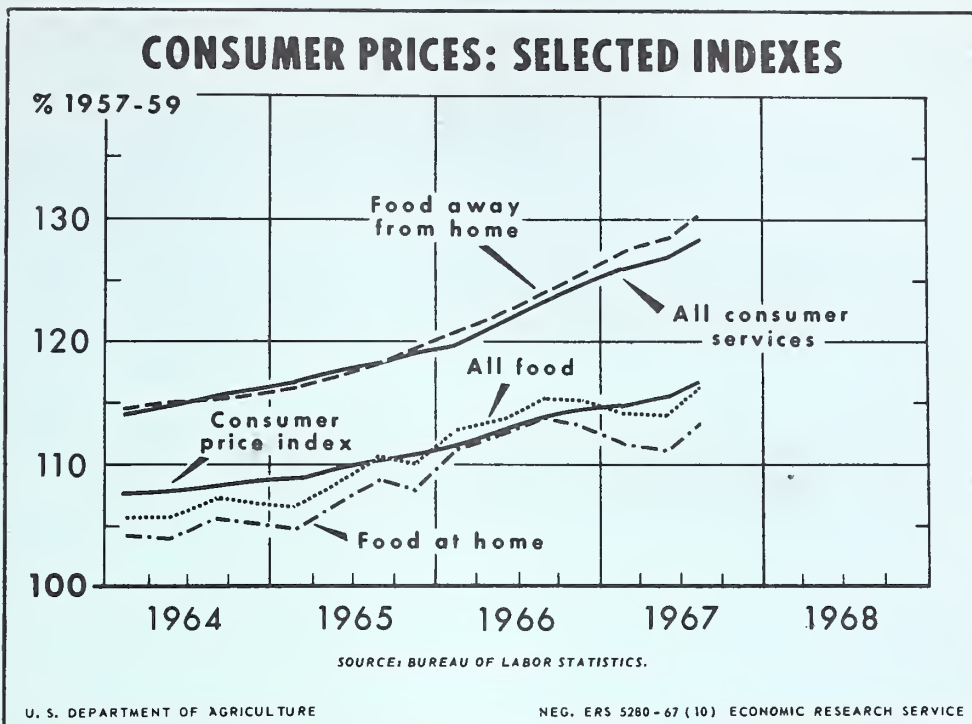


DATA FROM BUREAU OF LABOR STATISTICS.

* EARLIER DATA NOT AVAILABLE.

U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 3787-67 (1) ECONOMIC RESEARCH SERVICE



COST OF EATING OUT, 1955 AND 1965

Per Household per Week, Spring



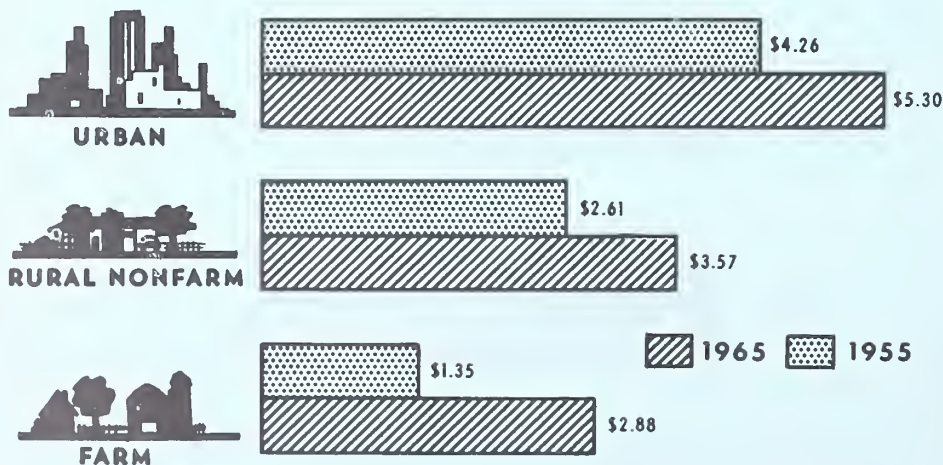
HOUSEHOLD FOOD CONSUMPTION SURVEYS.

U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 5406-67 (10) ECONOMIC RESEARCH SERVICE

COST OF MEALS EATEN OUT, BY URBANIZATION, 1955 AND 1965

Per Household per Week, Spring



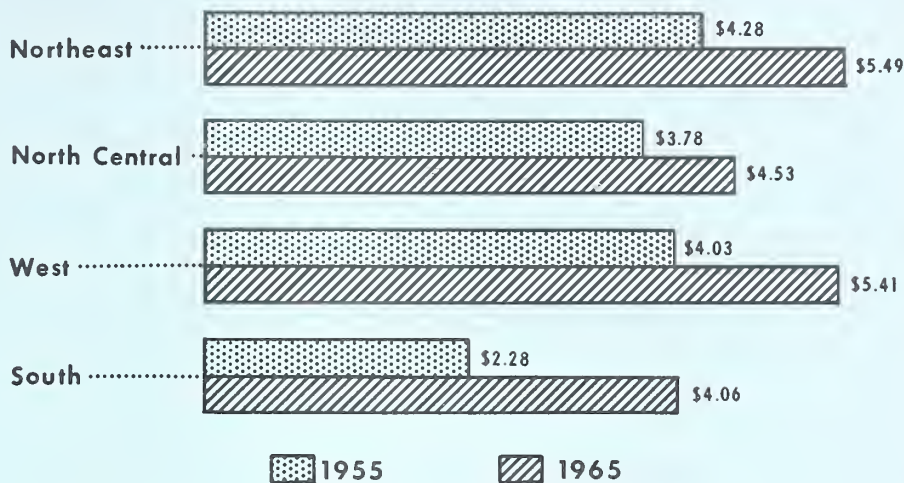
HOUSEHOLD FOOD CONSUMPTION SURVEYS.

U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 5410-67 (10) ECONOMIC RESEARCH SERVICE

COST OF MEALS EATEN OUT, BY REGION, 1955 AND 1965

Per Household per Week, Spring



HOUSEHOLD FOOD CONSUMPTION SURVEYS.

U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 5409-67 (10) ECONOMIC RESEARCH SERVICE

COST OF EATING OUT, BY INCOME LEVEL, 1965

Per Household per Week, Spring

INCOME
(\$ THOUS.)



HOUSEHOLD FOOD CONSUMPTION SURVEYS.

U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 5405-67 (10) ECONOMIC RESEARCH SERVICE

COST OF EATING OUT, BY HOUSEHOLD SIZE, 1965

Per Household per Week, Spring

PERSONS



 **Meals**

 **Snacks**

HOUSEHOLD FOOD CONSUMPTION SURVEYS.





UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Research Service

PRACTICES IN THE USE OF HOMEFREEZERS

Talk by Ruth A. Redstrom
Consumer and Food Economics Research Division
at the 45th Annual Agricultural Outlook Conference
Washington, D. C., 3:30 P.M., Tuesday, November 14, 1967

Since World War II, homefreezers have become increasingly prevalent and freezing increasingly important as a method of food preservation. Some of you may have information on the extent to which homefreezing has supplanted home canning in your States.

Information on the number of households with freezers is collected when households are interviewed in our nationwide surveys of food consumption. Only separate freezers are counted, not those in combination with a refrigerator. I would like to show a comparison of the data collected in 1965 with those in 1955 (fig. 1).

In 1965 almost 30 percent of all housekeeping households in the United States had freezers. This is more than twice the proportion in 1955.

Freezers were found most often on farms. More than 70 percent of the farm households interviewed in 1965 had freezers, about 40 percent in 1955.

Gains in freezer ownership for nonfarm households were even greater from 1955 to 1965, though fewer of them than farm families had freezers at both times. About 40 percent of the rural nonfarm households had freezers in 1965. The proportion of urban households with freezers increased from 8 percent in 1955 to 20 percent in 1965.

Because of this growing popularity of homefreezers, it seemed important to us to get some information on how families who have them are using them. This information could then be used in preparing consumer guidance materials. Therefore, in 1964 we made a survey of both farm and urban owners of freezers. This survey was made in the summer and fall months in the Fort Wayne area of Indiana. Initially, 242 farm and 240 urban freezer owners who were willing to participate were interviewed and furnished information on selected characteristics of their families, characteristics of their freezers, their freezer management practices, and their attitudes towards and experiences with freezer ownership.

I would like to present some of the highlights from this survey. Following is a summary of the information we collected in the first interview.

The Survey Families

The farm and city households were similar in distribution by size and each had a median of 4 members. The farm families were less well off financially than the city ones. About 40 percent of those on farms reported after-tax money income of \$6,000 or more. More than 60 percent of those in the city reported that much income. If the nonmoney contributions from the farm were taken into consideration, the economic situation of the two groups probably would be more similar. Most of the homemakers in the Fort Wayne area survey did not work outside of the home. Only about 24 percent of the city homemakers and 16 percent of those on farms had full-time or part-time paying jobs.

Characteristics of the Freezers

As for their freezers--almost three-fourths of those on farms were the chest type, slightly less than half of those in the city homes were the chest type. Except for 2 walk-in freezers, all others were the upright type. We found more large freezers on farms than in the city. Average size on the farm was 17.5 cubic feet, in the city 14.7 cubic feet. A relatively small percentage of freezers in either area was equipped with a thermometer--36 percent on farms and 25 percent in the city. The interviewers carried thermometers and took the temperature in the storage area in each freezer. There was a wide range in temperature, from below 0° F. to 20° in freezers on farms and from 0° to 30° in those in the city (fig. 2). About 70 percent of those on the farms and 60 percent of those in the city registered 0° F. or below. We were interested and rather surprised to learn from the interviewers that some of the homemakers asked, "What should the temperature be?"

Freezer Load

The cost of maintaining a temperature of 0° F. in the freezer is the same regardless of the amount of food in the freezer. The cost per pound of frozen food, therefore, is inversely related to the frozen food load in the freezer. The interviewer and the homemaker together estimated how full the freezer was during the first interview. This was in the months of July through October of 1964. More of the freezers on farms than in the city households were filled or almost filled to capacity (fig. 3). About one-third of those in both farm and city households were half full. A rather high percentage, 20 percent on the farm and 32 percent in the city were only about one-fourth full.

All of the farm families and almost all of the city families had a variety of frozen foods stored. However, four city families were storing one kind of food only--three families had just meat, and another had just a small quantity of dairy products. Each of the rest of the survey families was asked to estimate how much of the used storage space was taken up by

different kinds of foods. Meats occupied a much larger percentage of used space than any other kind of food for both farm and city families--an average of about 40 percent. Vegetables and fruits occupied the next largest amount of space, followed by poultry and then baked goods. Little space, less than 5 percent for each, was used for storing juices, fish, dairy products, or mixtures such as TV dinners, casseroles, pizzas, and so forth.

Freezer Management Practices

Advice and recommendations on freezer management practices are available to freezer owners from a variety of sources. Frequently suggested as good practices are keeping records so that foods are not forgotten in storage, and dating packages so that those stored longest can be used first. How effective have these suggestions been? We found in the Fort Wayne survey that few homemakers kept records of the contents of their freezers. Twenty-four percent of the farm homemakers and slightly fewer than 10 percent of the urban homemakers kept such records. However, a large percentage of both--about 88 percent--grouped like foods together in the freezer so that they could tell how much of a particular food they had on hand. Sixty percent of the farm homemakers and about 50 percent of those in the city said that the frozen food packages in their freezers were usually dated. Most often this was done by the homemaker, but in some cases the packages were already dated when purchased and placed in the freezer.

Frozen Food Use

After this first interview, we asked each homemaker to keep a record of the frozen foods used during the next week. This would give us some idea of how extensively the freezer was being used. We provided a check form on which the homemaker could record the kind of food, number of packages or containers, and the source of the food (whether home-produced or purchased and, if purchased, where). These records were kept for these nine broad food groups: Fruits, vegetables, juices, meats, poultry, fish, dairy products, baked goods and mixtures. Thus, we have data on use for these food groups, but not for individual foods within groups. I would like to concentrate discussion of our survey findings for the most part on the total amount of all frozen foods, and on amounts of meat, and vegetables.

Farm families used an average of about 11 packages of frozen foods in the week, urban families about 12 (fig. 4). Both used a larger number of packages of meats than any other kind of food, about four per household per week. Bakery products (not shown in figure 4) were used in the next largest quantity, an average of about three packages per week.

Both farm and urban households used an average of about one package of frozen vegetables in the week. The availability of fresh produce during the

summer and early fall months when these records were kept may have affected the use of the frozen products. Also, use was not recorded unless the entire contents of the container or package was used. We have no record of use if a portion of the container or package was used and the container was returned to the freezer. This is rather common practice with some vegetables.

Sources of Frozen Foods Used

The sources of foods available to freezer owners affect how the family uses its freezer. Farm families, of course, would have more of their own home-produced foods to preserve than city families. Of all the frozen foods used in one week by the Fort Wayne area survey families, 33 percent had been home produced by the farm families, slightly less than 10 percent by the city families (fig. 5). Home-made products are included with home-produced foods even if made with purchased foods.

The retail store was the main source of foods for both farm and city families. Fifty percent of the foods used from the freezer by farm families and 73 percent of those used by city families had originally been purchased in a retail store--either in the fresh state to be frozen at home or as commercially frozen food. Farm families had originally obtained about 8 percent of the foods used from the freezer in the record-keeping week from another farmer, city families about 5 percent from a farmer. A variety of other sources--freezer plan, wholesaler, locker plant, freezer cooperative, food received as a gift--accounted for about 9 percent of foods used in farm households, 13 percent in city households. Only in the city was a freezer plan listed as a source of food to any extent.

A slightly different pattern is shown for the sources of meats used from the freezer (fig. 6). Home-produced meats accounted for about 40 percent of the total meats used from the freezer by farm families. Only a few urban families had used rabbit or game which they had originally obtained through hunting. The retail store was the main source for meats used from the freezer in the city (about 60 percent of that used) and accounted for the largest percentage of those not home produced on the farm (about 30 percent). For farm families, another farmer supplied about 16 percent of the meats used from the freezer, and about 13 percent came from other sources--usually a locker plant or freezer cooperative. For city families, a farmer supplied about 13 percent, a freezer plan about 11 percent, and other sources about 14 percent.

An entirely different pattern is shown for the sources of vegetables used from the freezer (fig. 7). Home-produced vegetables accounted for 70 percent of those used in a week by farm families, and a rather surprising 25 percent of those used by city families. Gardens are evidently more prevalent in urban Fort Wayne, at least among the participating freezer owners, than one might expect in a larger city. The retail store was the

main source for vegetables used by city families and ranked next after that home produced on the farm.

Freezer Input For One Month

Immediately after the week that records of food use were kept, the homemaker kept a record of the foods put into the freezer in one month. The monthly food input averaged 46 pounds for the farm families, 43 pounds for the city families. More meats were put into the freezer than any other kind of food--an average of about 13 pounds per household in farm households, 16 pounds in city households. Baked goods were put into the freezer in the next largest quantity--an average of about 10 pounds per month for both farm and city families. Farm households placed about 6 pounds each of vegetables and poultry in the freezer in a month, and less than 5 pounds of the other foods. The city families placed an average of less than 5 pounds per household of all foods except meats and baked goods.

We found that a large percentage of the total food input was frozen in the homefreezer--that is, put into the freezer fresh, not in the frozen state (fig. 8). Farm families froze an average of 80 percent of the total input of all foods, city families about 66 percent. Most of the meats put into the freezer in the month were frozen in the homefreezer. For farm families, almost all of the vegetables were frozen in the home; for urban families, about half of those put into the freezer in the month.

Length of Storage

The survey families also kept records of the length of homefreezer storage for each package of food placed in the freezer during the month. Results indicate a relatively rapid rate of turnover of foods. For farm households, 42 percent of the monthly input of foods was used within 2 weeks, about 70 percent within 2 months (fig. 9). The percentages of meat input used are about the same as those for all foods. Vegetables, however, were stored longer; only slightly more than 25 percent of the monthly input had been used within 2 months.

For urban households, the percentages of monthly input of all foods and of meats used within 2 weeks and within 2 months were slightly higher than those for the farm households (fig. 10). The percentage of vegetable input used was considerably higher than that for the farm households. One-fourth of the input was used within 2 weeks, more than half within 2 months.

Among the food groups, fruits and vegetables had the longest home storage periods. Baked goods and dairy products were almost in-and-out items; more than 90 percent of the input on farms and more than 80 percent of the input in urban households had been used within 4 weeks.

Advantages and Disadvantages of Freezer Ownership

The opinions homefreezer owners hold on the benefits of owning a freezer must be taken into account in any evaluation of how freezers are being used. For the most part, the survey families in the Fort Wayne area got a high degree of satisfaction from their freezers. They mentioned many advantages. Among them:

- Freezing local or home grown fruits and vegetables
- Freezing their own meat
- Saving money
- Saving time in shopping, not shopping as often as before
- Having food on hand when needed
- Having better quality food in greater variety than before
- Freezing is easier than canning

Eighty-five percent of the urban and about 80 percent of the farm families could find no disadvantage in freezer ownership. For the relatively few who did have complaints, these were most frequently mentioned:

- The nuisance of defrosting
- Foods frozen solid when needed
- Power failure and fear of power failure
- Can't get to the bottom of the chest-type freezer, foods fall out of the upright

Costs of Homefreezing

It was interesting to find that only 5 of the farm homemakers and none of the city homemakers mentioned the expense of homefreezing as a disadvantage. Yet freezing does cost money. We have estimated the cost of homefreezing for a year, excluding the cost of the food itself. The following data used in these cost estimates were obtained from the homemaker: The size and price of the freezer, and an estimate of the amount spent on repairs and on packaging materials for the year before the interview. An average of these costs for farm households and urban households was used in these calculations. Estimates of the expected freezer life and of electrical requirements for freezing food and maintaining 0° F. were obtained from USDA Home and Garden Bulletin #48,

HOME FREEZERS--Their Selection and Use. The electrical rate used is based on information from two utility companies in the Fort Wayne area. One quoted the average residential rate for 1964 as 1.91 cents per kilowatt-hour, the other 1.99 cents. The midpoint--1.95 cents--was used in the calculations.

The breakdown of expenditure items is as follows:

1. Depreciation:

Farm Families

\$20.33

Urban Families

\$22.07

These costs are based on an expected freezer life of 15 years and average purchase price of \$305 for farm freezers, \$331 for urban.

2. Repairs:

Farm Families

\$3.46

Urban Families

\$2.62

These costs are averages of the estimates given by the homemakers on the amount spent for repairs in the year before the interview.

3. Electricity--

For freezing:

Farm Families

\$0.82

Urban Families

\$0.57

The average size of freezer on the farm was 17.5 cubic feet with a capacity of 525 lbs.; in the city, 14.7 cubic feet with a capacity of 441 lbs. These costs have been calculated on the basis of the electricity needed to freeze 80 percent of the frozen food capacity for farm families, 66 percent for city families--the percentages of input frozen from the monthly records.

For maintaining 0° F.:

Farm Families

\$24.91

Urban Families

\$23.02

4. Packaging:Farm Families

\$3.94

Urban Families

\$3.03

These costs also are averages of the estimates given by the homemakers on the amount spent on packaging in the year before the first interview.

The total annual cost for homefreezing averaged about \$53 for the farm families and \$51 for the city families. If the amount of food in the freezer in the year was only that of its average capacity (525 lbs. in farm freezers, 441 lbs. in city freezers), the cost per pound of food would average 10 cents in farm households, 12 cents in city households. That may not seem unreasonable when added to the price of a 1-lb. porterhouse steak, but it is a considerable amount when added to the cost of a 1-lb. loaf of bread. However, the storage records kept by these survey homemakers indicate a relatively rapid rate of turnover of foods in the freezer, which would reduce the cost per pound of food considerably. These records suggest that a turnover of two and one-half times the freezer capacity in a year may be a conservative estimate. On that basis and including the cost of electricity for freezing the additional food (the only extra cost exclusive of the food itself), the cost per pound of frozen food would be about 4 cents for farm families and about 5 cents for urban families.

Conclusions

These survey highlights depict conditions of freezer use by a relatively small number of persons in only one place and at only one time. They do suggest, however, that some freezer owners might benefit from improvement in management practices. In general, the farm families followed better practices than the city families. This may be because they have had more experience, handed down from generation to generation, in preserving their home-produced foods. And of course, they've had more help from Extension agents than urban families.

Some areas for consumer education programs might be drawn from these survey findings. From the standpoint of frozen food quality, emphasis might be placed on better storage temperature control, on keeping freezer inventory records, and on planning use of foods within definite time periods. From the standpoint of dollars and cents, emphasis might be placed on using the freezer more fully to reduce the cost per pound of frozen foods.

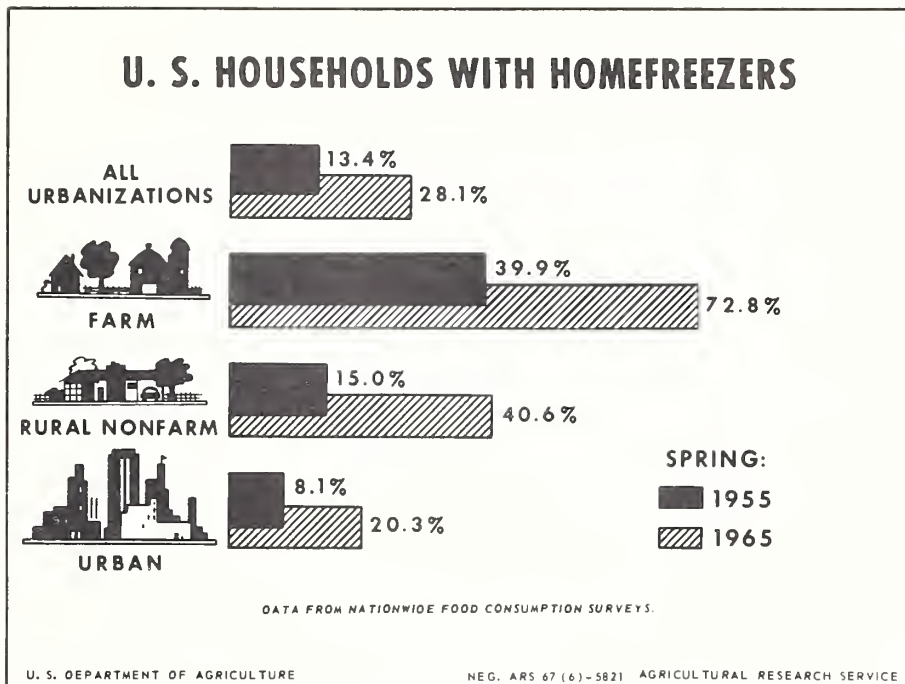


Figure 1

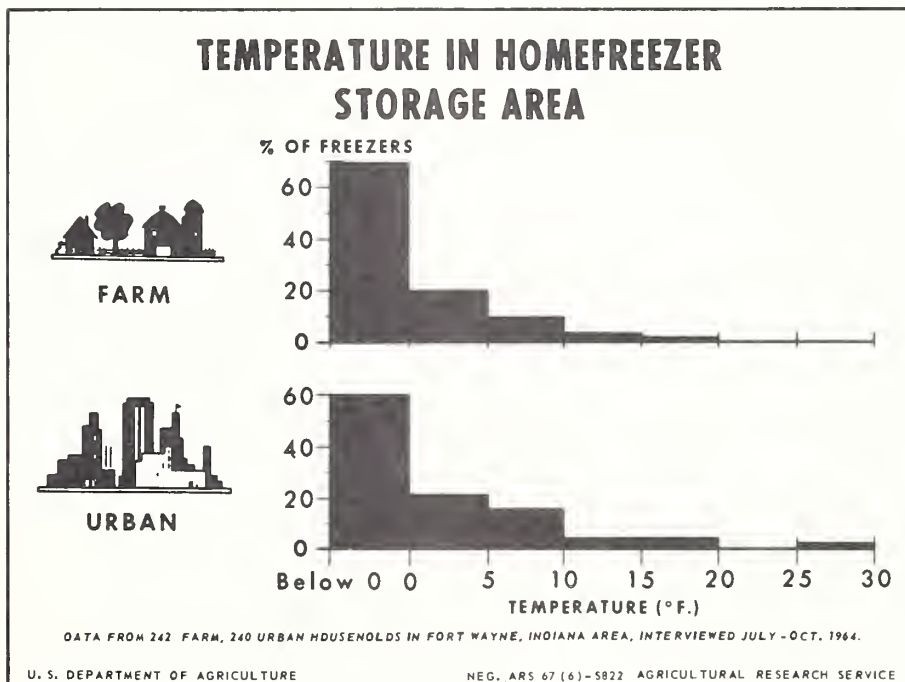


Figure 2

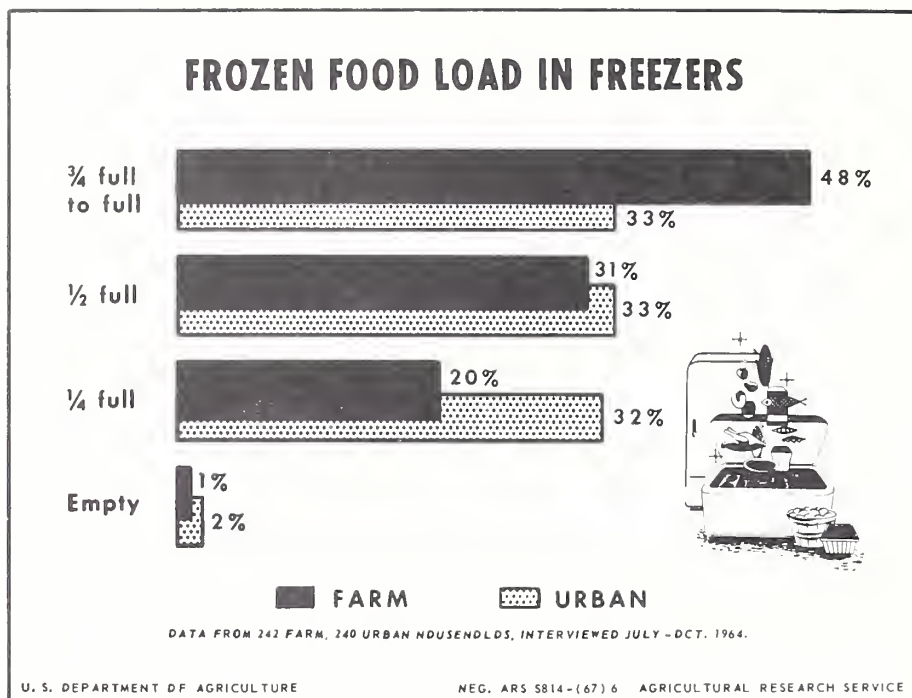


Figure 3

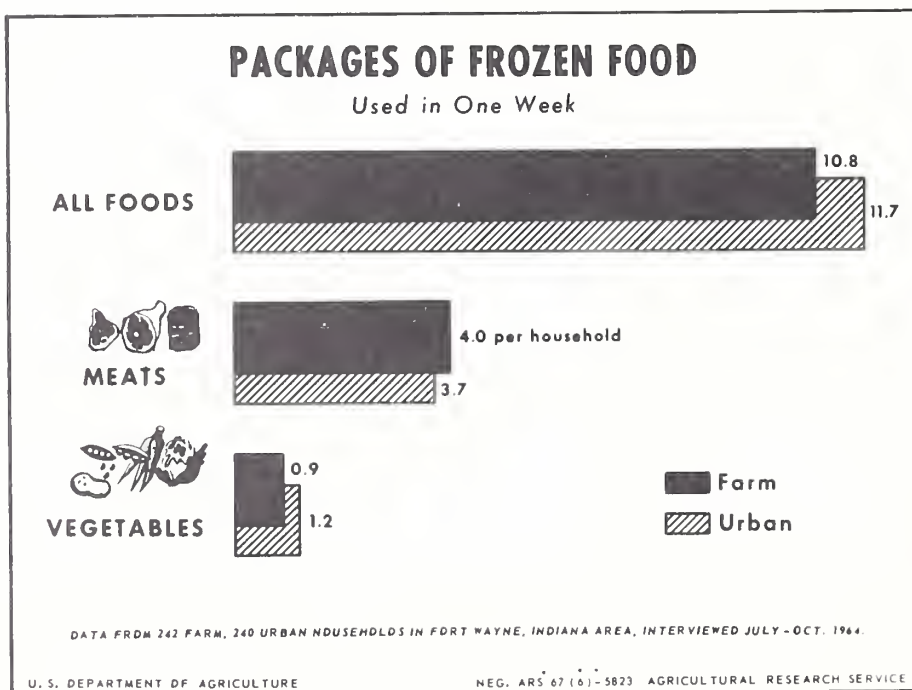


Figure 4

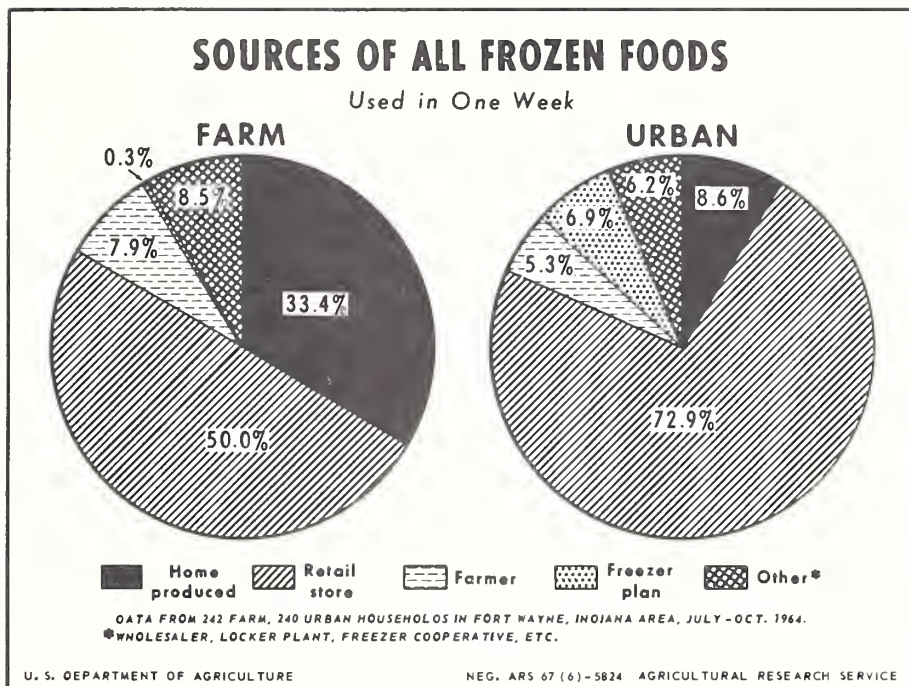


Figure 5

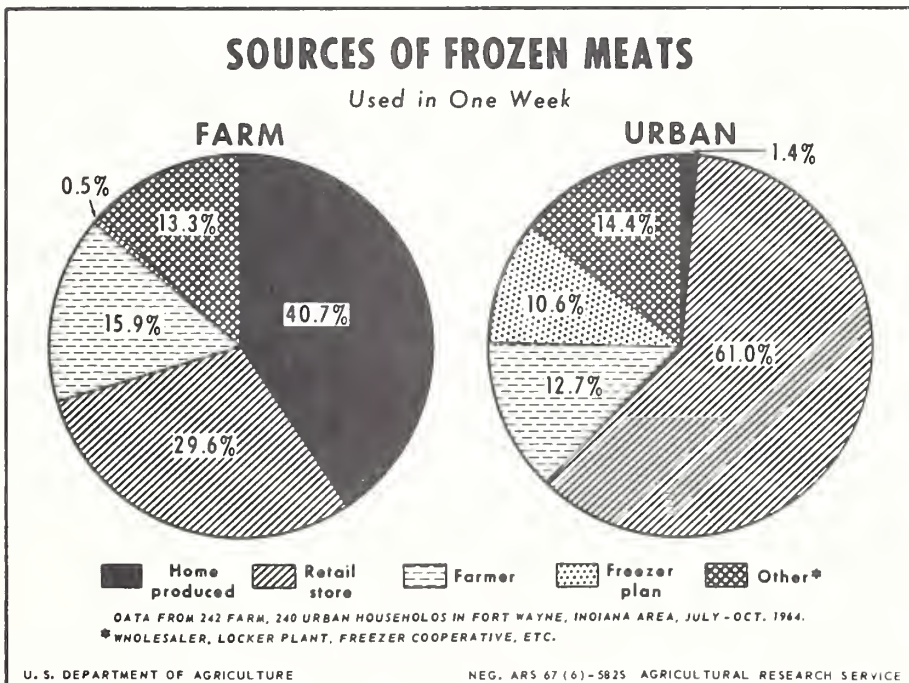


Figure 6

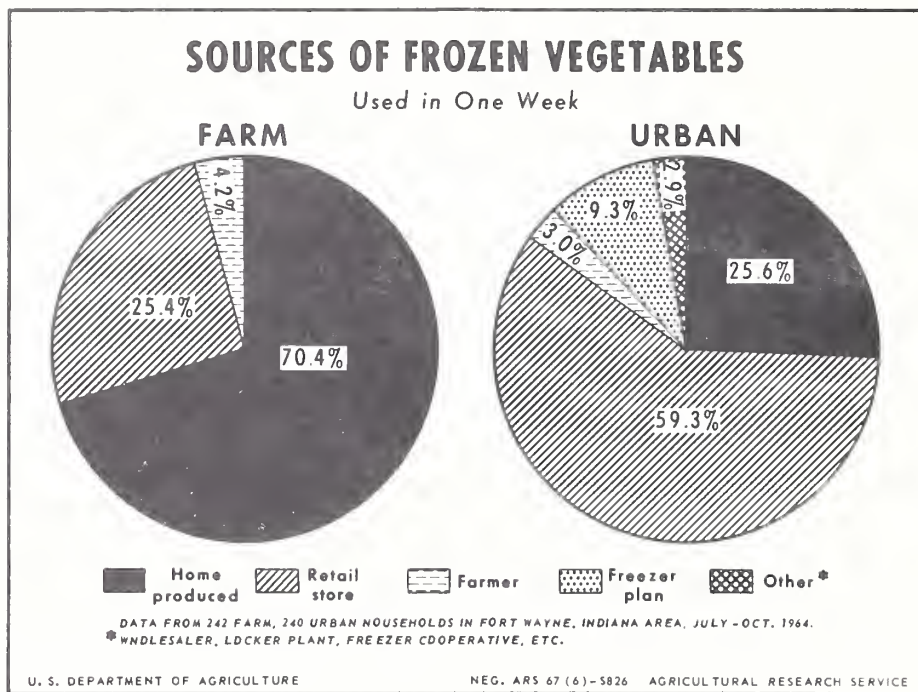


Figure 7

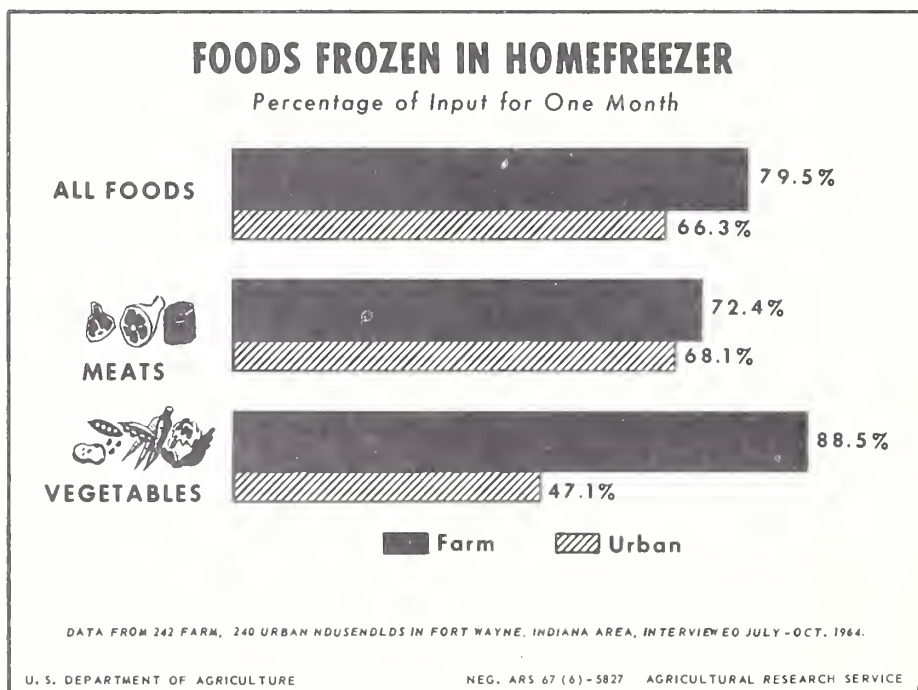


Figure 8

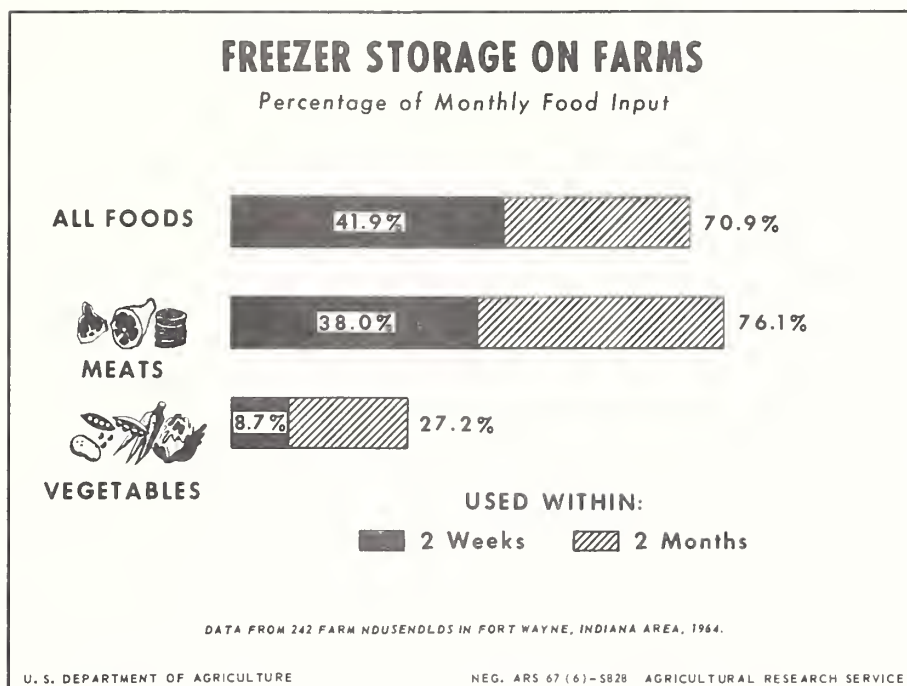


Figure 9

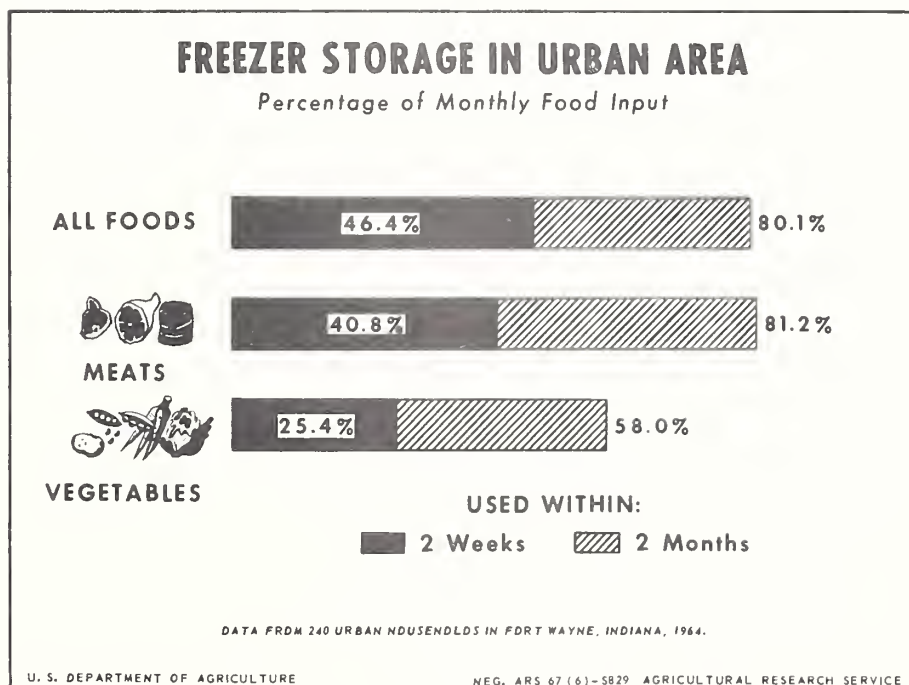


Figure 10



UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Research Service

HOUSEHOLD USE OF CONVENIENCE FOODS

Talk by Gordon E. Bivens
Consumer and Food Economics Research Division
at the 45th Annual Agricultural Outlook Conference
Washington, D.C., 4:15 p.m., Tuesday, November 14, 1967

To many, the term convenience foods may conjure up a science-fiction image of something that, upon the push of a button, extricates itself from the refrigerator, freezer, or storage shelf, is automatically heated or baked, and appears almost miraculously on the table ready to be devoured by a happy, well-adjusted 20th century family. However, in real life we know that foods have varying amounts of convenience "built into" them. In fact, because of this it is not easy to define convenience foods in a universally satisfactory way--for example, is not the homogenized, pasteurized milk in convenient-sized cartons delivered to your doorstep or milk box a convenience food? Clearly, when compared to its home-produced counterpart, it rates high on most any convenience scale, yet we hardly give it a second thought since it is so well and so long entrenched in our experience. Probably there are several such "old time" mainstays that have come to be taken so much for granted that we no longer consciously think of them as convenience foods.

Convenience foods probably can be characterized in several ways. [1, 4, 5] One characteristic is that a convenience food requires less time in preparation than its less-processed or home-produced counterpart. Another characteristic might be that the distribution of preparation time is changed, even if the reduction in total preparation time is not great. Still another characteristic might be ease of storage or reduction in the amount of storage space needed or change in type of storage required, as in the case of concentrated and/or dried products. Ease of transporting from food market to home because of lighter weight or less bulk might be a convenience characteristic of some foods. And greater quality retention might even be thought of as a characteristic of some convenience foods.

Some convenience foods have their form changed but are not "mixed" with other foods (e.g., frozen juice concentrates) while others are changed by being offered in combination with other products (e.g., mixes, complete meal plates, etc.).

The criteria by which an item is classified as a convenience food may also change over time. That is, one food product may be offered in several

convenience forms, new forms being added with the passage of time. An example might be oranges: fresh, commercial juice, canned juice, frozen concentrate, powdered. In such a case, to which of the previously-introduced forms do we compare the newer forms--is the powdered form a convenience compared with frozen? or, only when compared with squeezing oranges for juice? Where there are several such stages of processing [1] as well as adoption and/or acceptance, does it not complicate the decision-making of families and consequently the informational and educational task of those working with families in the interest of their making good--hopefully best--use of their resources, including resources devoted to food? It seems so to me, partly because of the sheer number of comparisons which are necessary in making the decision to buy one or another form of a convenience food to say nothing of the increased complexity of first becoming aware of all the alternatives. The time and money "trade-offs" are much more numerous and subtle. I'm not suggesting that technological progress be held back but simply pointing out one of its consequences.

Related to the increasing complexity of the decision processes, there is a related question of whether the proliferation of convenience forms, when it occurs at different rates for various foods, may change the things for which a given item substitutes. For example, if reconstituted dehydrated potatoes are considered easy to use, may not potatoes be substituted for other vegetables (or even grains--e.g., rice) to a greater extent than before the advent of dehydrated potatoes? In other words, the substitution of a convenience form of potatoes may not be just dehydrated potatoes for fresh, but it may be potatoes instead of some other food item. Thus, it would seem that the range of substitutability might be broadened. To go much farther along these lines is outside the scope of my assignment today, but what we will be discussing should, it seems to me, be within this general frame of thinking. Specifically, I would like to point out changes between 1955 and 1965 in the quantities and money value of 32 convenience foods. I'll put major emphasis on those items in which there were the most substantial quantity changes and on the combined money value of these 32 convenience foods.

Criteria for inclusion of food items

As a starting point I have used the definition of a study published by the ERS, USDA 1/ "Convenience foods....refers to foods which have services added to the basic ingredients to reduce the amount of preparation required in the home. That is, convenience foods require less work or adding of ingredients in the home than the home-prepared counterpart." [4, p. 3] However, some foods are included in this paper which were not in that study because of lack of data on preparation time which would have been necessary for purposes of that study. An example is canned soups. On the other hand,

1/ The Human Nutrition Research Division, ARS, USDA, collaborated.

because of other types of data limitations or time restrictions, not all food items included in the ERS report were included in this analysis. But no food was included which seemed not to meet the general criterion of reducing home preparation time; in addition, so that some comparisons between the two years could be made, only those foods were included for which data were available in both the 1955 and 1965 Household Food Consumption Surveys made by the Consumer and Food Economics Research Division, USDA. Obviously, not all convenience foods were included--e.g., exotic, rarely-found items--nor were some of those whose use is so universal--and was already so even by 1955--that changes in acceptance over time would not be expected to be great--e.g., homogenized milk, bakery bread, etc. For our purposes, 32 convenience foods were examined.

Changes in individual convenience foods

Striking percentage changes between 1955 and 1965 in either quantity or money value, or both, of some convenience foods were found.^{2/} For the most part, I shall mention only those which changed most in percentage terms in either quantity or money value. Undoubtedly many interrelated conditions resulted in these changes, not all of which are known. Certainly, our data don't allow us to be conclusive, but it might be worthwhile to hypothesize what may have been replaced by those foods which went up in use, what replaced those which went down, etc., as we note some of the changes of individual items. To do this, I shall refer to some additional data which aren't presented in detail in this paper.

In figure 1*, we note that fresh, commercial fruit juices went up dramatically percentage-wise in quantity. In fact, of all 32 convenience foods, this percentage change in quantity was second only to frozen potatoes. It would seem likely that some of this increase is a substitute for the decrease in consumption of canned fruit juice during the same period.

All three processed forms of potatoes shown in figure 1, and in particular frozen potatoes, advanced strikingly in quantity; this would seem likely to be a substitution for fresh potatoes, consumption of which went down.

^{2/} These should be viewed in light of the fallacies of percentages--small quantities used or money value for a given item in 1955 might make a relatively small increase between 1955 and 1965 appear large when expressed as a percent. Contrariwise, items already used in substantial quantities and money terms in 1955 might have gone up during the ten-year interval but the percentage increase would appear nominal.

* Copies of the figures not available at the time this talk was reproduced.

Use of commercially processed soups went up, canned, condensed soups over 30 percent and dry, dehydrated soups 100 percent (figure 1). Interestingly, the quantity and money value of biscuit, roll, and muffin mixes dropped (figure 1); however, the use and money value of bakery products other than bread jumped, as shown in figure 1, suggesting a shift from a second stage preparation [3] to a third stage preparation.

Ready-to-eat breakfast cereals scored a 30 percent-plus increase in quantity used in spite of higher prices which are reflected by the accompanying 90 percent increase in money value. Spectacular advances, in percentage terms, were registered in both quantity and money value of powdered fruit ades, punches, etc.; but remember: these are percentage increases between the two years and the consumption of powdered fruit punches and ades was very nominal in 1955. Thus, any increase would tend to show up fairly large when expressed as a percentage increase based on 1955 use. We might note that this spectacular advance in use of powdered fruit ades, punches, etc. took place in spite of apparently even greater advances in price. You will note that while quantity went up 200 percent, the money value jumped four times that much. On the other hand, in the same section of figure 1, it will be noted that the use of instant coffee rose by 125 percent while its money value increased only about one-third. This would seem to indicate a price sensitivity for this product. You may note other shifts and be able to offer explanations of them as well as other potential reasons for the changes I've noted.

Money value of 32 convenience foods

To get an overview of the use of convenience foods, money value was used since it reflects combined changes in both price and extent of use for all 32 items. Presented first are figures on money value based on current prices in the two years (i.e., not deflated); later, we turn to proportions within each of the two years in an attempt to minimize the effects of price changes between 1955 and 1965. 3/ In 1955, the combined money value of these 32 convenience foods was \$6.02 per household in a week during the spring (figure 2). In 1965, the total was \$8.20, an increase of 36 percent. The increase per person from \$1.81 in 1955 to \$2.49 in 1965 is an increase of about 38 percent.

Shifts by urbanization.--The 38 percent increase in dollar amount of these 32 convenience foods per person per week was not uniform among all urbanizations as shown in figure 3. Rural farm families increased the money

3/ An alternative would have been to deflate the money value of the 32 items in our analysis with the overall food price index. However, deflating specific items by a general index has limitations which made it seem preferable to use the money value of these 32 convenience foods as a proportion of all purchased foods.

value of convenience foods used at home in a week by 63 percent. In spite of this, the money value of convenience foods used per person by farm families in 1965 was still less than the average for the U.S. (\$1.99 vs \$2.49). And, even though urban families' use of convenience foods measured in money value terms changed less than the all-U.S. average because their use of those foods was already fairly high in 1955, they were using convenience foods with an average money value per person per week of \$2.60--more than the U.S. average.

Shifts by region.--Figure 3 indicates the difference in the percentage changes by regions. One outstanding difference among regions is noted: the South increased use of convenience foods by 61 percent compared with the U.S. average of nearly 38 percent.

Shifts by urbanizations within regions.--In figure 3, the Northeast region is seen to be characterized by fairly uniform percentage changes by the urbanizations. On the other hand, in the South, rural farm families increased the use of convenience foods by 86 percent, substantially above the 61 percent increase for the region as a whole. The larger-than-average percentage increases (for their regions) by farm households probably reflects the tendency for farm households to buy somewhat more of their total food in 1965 and to consume more like nonfarm households.

Shifts by income group.--Between 1955 and 1965, households in the lowest one-third of the income scale increased their use of these 32 convenience foods more than higher income households. The money value of these 32 convenience foods used by the low income one-third increased by just over 50 percent as shown in Table 1; the average for all households was just less than 38 percent.

Table 1.--Changes in spending on 32 convenience foods
by income grouping *

Income group	Average per person expenditure on 32 convenience foods		Percent change 1955-1965
	1955	1965	
Low one-third	\$1.33	\$2.00	+ 50.4
Middle one-third	1.87	2.55	+ 36.4
High one-third	2.16	2.83	+ 31.0
All	1.81	2.49	+ 37.6

* Preliminary data.

Part of the explanation for this probably lies in the fact that in 1965 single-person households were included whereas the 1955 data do not include them. ^{4/} A sizeable portion of these single-person households fall into the low-income group and, thus, might exaggerate the difference between 1955 and 1965. Also, the single-person households, may include a fairly high proportion of older households who because of health limitations or other age-related reasons may turn to convenience foods relatively more than higher income households. Also, households headed by older persons may have additional financial resources to draw on (liquidation of capital) even though classified low on a currently-earned income basis.

Money value of convenience foods as a percent of total money value of purchased food in a week

The increase in dollar value of convenience foods includes changes in prices as well as quantity. To get an idea of the relative importance of these 32 items in household food spending we compared the percent that spending on these convenience foods was of total purchased foods in 1955 and 1965. In 1955, the money value of these 32 convenience foods was just less than 27 percent of the total money value of food purchased and used at home in a week; this compares to slightly more than 30 percent in 1965 (Table 2). So, the importance of these 32 convenience foods as a proportion of all purchased food increased relatively during the 10-year interval by 14 percent ($30.4 \div 26.6$). And, since in spring 1965 the average money value of these 32 foods was taking roughly 3 out of 10 food dollars, we are talking not just about frills but a fairly substantial and growing proportion of the total money value of household food.

Also in Table 2 it may be seen that this increase in spending for convenience foods among lower income households represents a larger-than-average increase relative to total food spending--the proportion of purchased food going for these 32 convenience foods increased 20 percent for the lower income third compared with 14 percent for all households.

Shifts by urbanization.--The 14 percent change between 1955 and 1965 in the proportion of total purchased foods represented by the money value of our 32 convenience foods was very similar for urban, rural nonfarm, and rural farm households (Table 2).

Shifts by region.--Also, from Table 2, we notice that the South showed greater change (18 percent) than the other three regions. This is in agreement with the greater changes in money value in the South noted earlier.

Shifts by urbanizations within regions.--Urbanization differences within regions are also shown in Table 2. The greatest deviation will be noted for rural nonfarm families in the West which changed more than twice as much as

^{4/} Data from single-person households were collected in 1955 but they were not broken down by income; thus, for the income analysis here, we have had to use the households with two-or-more members in 1955 and households of one-or-more members in 1965.

Table 2.--Proportion of money value of purchased food spent
for 32 convenience foods, 1955 and 1965 *

	Percent that 32 convenience foods are of total purchased food		Percent change (1955 as base)
	1955	1965	
Region, urbanization:			
United States	26.6	30.4	14.3
Urban	25.3	29.5	16.6
Rural nonfarm	28.4	32.2	13.4
Rural farm	32.4	37.3	15.1
Northeast	25.9	29.7	14.7
Urban	24.4	28.7	17.6
Rural nonfarm	30.2	33.0	9.3
Rural farm	36.4	40.6	11.5
North Central	28.4	32.2	13.4
Urban	27.0	30.7	13.7
Rural nonfarm	29.6	33.9	14.5
Rural farm	36.9	41.3	11.9
South	25.3	29.8	17.8
Urban	24.6	29.4	19.5
Rural nonfarm	26.3	30.1	14.4
Rural farm	26.4	31.9	20.8
West	26.6	29.8	12.0
Urban	25.8	29.1	12.8
Rural nonfarm	27.1	34.0	25.5
Rural farm	34.3	38.5	12.2
Income group:			
Low one-third	26.9	32.3	20.1
Middle one-third	27.5	31.2	13.5
High one-third	26.2	29.2	12.2

* Preliminary data.

the whole region. 5/ In the South, rural farm families and also urban families increased somewhat more than the average for region. In the Northeast, the urban families tended to change more than the average. In the North Central region there was striking similarity among the urbanizations.

Convenience foods in 1965

Thus far we've looked mostly at shifts between 1955 and 1965 in money value of these 32 convenience foods. What about the situation in more detail as it existed in 1965? Especially with respect to income, urbanization, and regional differences?

Money value and income.--As might be expected on theoretical grounds, income and money value of convenience foods per person are quite highly--and positively--correlated. For 1965, the correlation coefficient was 0.81; the coefficient of determination was 0.65, indicating that 65 percent of the variation in average spending was explained by differences in income. Perhaps it should be noted, however, that the effect of income on spending for convenience foods appeared to have weakened during the 10 year interval. 6/ This, of course, follows from the earlier observation that lower income households increased their use of these convenience foods, in money value terms, more than other income groups.

Money value of convenience foods by income by regions and urbanizations, 1965.--Our analyses to date indicate that in 1965 differences among regions and urbanizations in spending for convenience foods were not statistically significant. This may reflect the "carrying along" of convenience foods with other shifts in food patterns. An earlier report showed that farm family spending for food overall is becoming more similar to that of nonfarm households, and that although differences between regions exist, they are diminishing over time. 6/ Somewhat of a "homogenization" of food patterns as between urbanizations and regions seems to have taken place.

Summary and Conclusions

(1) Although the use of convenience foods generally increased between 1955 and 1965, not all have increased, nor have those which have gone up in use increased by the same proportion. Among the 32 convenience foods examined here, the largest percentage increases in quantity were for frozen potatoes; fresh, commercial fruit juice; powdered fruit ades and punches; and frozen fruit ades and punches. The greatest percentage advances in money value were for powdered fruit ades and punches, followed by canned, dehydrated potatoes;

5/ This should be interpreted cautiously, however, since the West rural nonfarm sample was relatively small (89).

6/ The regression coefficient of income on money in 1965 was smaller than 1955, and differed enough to be statistically significant.

frozen potatoes; and fresh, commercial fruit juice. On the other end of the scale, decreases were noted for some convenience foods, the largest percentage drops in quantity being for biscuit, roll, and muffin mixes, commercially frozen fruits, and canned milk. The relative readiness of U.S. households to accept convenience forms of foods is not confined, it appears, to "new, exotic" foods, as shown by the substantial increase in use and money value of convenience forms of potatoes.

(2) The growing acceptance of convenience foods by U.S. households is shown by the increase in money value of 32 convenience foods per household in a week from \$6.02 in spring 1955 to \$8.20 in spring 1965. In spring 1965, spending for these convenience foods was 30 percent of total money value of purchased food--up from slightly less than 27 percent in 1955.

(3) The increase in convenience food spending between 1955 and 1965, on a per person basis, changed considerably more among Southern rural farm households than for other regions and urbanizations.

(4) Low income families tended to shift their food spending relatively more toward convenience foods than higher income households.

(5) Convenience food spending as a proportion of total purchased foods increased about 14 percent between 1955 and 1965. This figure was strikingly similar for urban, rural nonfarm, and rural farm households; among regions, the South changed most.

(6) Income and spending for convenience foods is positively and highly correlated. About 65 percent of variation in average spending on convenience foods is explained by income. However, the effect of income on convenience food spending lessened between 1955 and 1965.

(7) Indications are that the relationship between money value of convenience foods used and income tend to be relatively alike between regions and among urbanizations.

(8) Some implications which these findings suggest to me with respect to educational programs for families are:

- A. Because of the increasing numbers of foods becoming available in convenience forms and because of the increasing numbers of different convenience forms of foods which even heretofore have been available, the range of alternatives for families is broadening. For the most part, this may be desirable. But it means that family decision making is more complex because of the sheer number of money and time:money comparisons which are necessary, to say nothing of quality appraisals. This would seem to suggest that educational programs for families stress the process of how to make these comparisons and how to arrive at

Decisions about whether to include convenience foods in their spending and, if so, to what extent. Naturally, the strictly informational aspects of the amounts of time involved in preparing substitute forms of a product is needed and useful, but it would seem unlikely, in light of the speed with which such things change, whether present extension educational programs or those we can envisage in the foreseeable future are "geared" to provide the last word about these matters. But, they can do much, it seems to me, to teach the process of how to compare, what to include in the comparisons, what time:money "trade-offs" are necessary to appraise, etc.

- B. If incomes continue to rise secularly, it might be expected that families would continue their shift to more-and-more convenience forms of foods. This might suggest a reordering of emphases in educational programs in terms of priorities given to this topic in foods and nutrition, consumer marketing, and family economics-management extension programs.
- C. It appears that not much attention needs to be given to regional and urbanization differences. In other words, groups formed of farm, rural nonfarm, and urban mixtures might be as teachable as those constituted separately among these urbanizations. This might suggest larger groupings, at some saving in time and effort, or that on this topic at least, Extension educators need no longer be "urbanization schizophrenics." Further, it may mean that the exchange of information and educational materials dealing with this topic can take place among educators in various regional-urbanization situations or, for that matter, materials prepared on a national level, with little alteration and adaptation for region and urbanization. If so, it again points in the direction of some conservation of educational resources.

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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR DAIRY

Talk given by Anthony G. Mathis
Economic and Statistical Analysis Division
at the Annual Agricultural Outlook Conference
Washington, D. C., 9:15 A. M., Wednesday, November 15, 1967

Prospects for 1968 are that U. S. milk production may be near this year's level. Prices farmers receive and gross cash receipts from dairying likely also will be near those of 1967, if there is no significant change in the dairy price support program and in Federal milk marketing order pricing.

Falling commercial disappearance of dairy products may stabilize and recover somewhat in 1968 because of rising population and consumer incomes and more steady dairy prices.

Despite the prospect of increased sales and lower imports, it is likely that 1968 CCC purchases will continue at substantial levels. Dairy price support levels of \$4.00 per 100 pounds for manufacturing milk and 68 cents per pound for butterfat were established in mid-1966 and will extend through March 1968. This level was slightly under the statutory 90 percent of parity maximum set by the Agricultural Act of 1949. By next April, changes in the parity index and the 10-year moving average of manufacturing grade milk prices, used to calculate the parity equivalent, may raise the legal maximum support level some 20 cents. USDA will announce 1968/69 price support levels before April 1.

Manufacturing grade milk prices--adjusted to the annual average fat test--have been near the support level throughout this year. The support price sustained first half prices of all milk an average 10 percent above a year earlier. With supplies of milk in excess of commercial requirements, second half prices are running under last fall's peaks.

Federal order actions this year also have had a stabilizing effect on prices. Seasonal changes in Class I differentials above the Minnesota-Wisconsin manufacturing milk price--basic formula price in most orders--were eliminated, and the average differential raised 20 cents. In addition, a floor of \$4.05 per 100 pounds of 3.5 percent milk was established for the Minnesota-Wisconsin price. These measures prevented Class I prices from falling in midyear as a result of seasonal changes in the differentials and from declining manufacturing milk prices. Through August, Class I prices in comparable Federal order markets averaged \$5.92 per 100 pounds (3.5 percent milkfat), up 48 cents from a year earlier. This fall, producer-negotiated premiums above minimum Class I prices are strengthening fluid milk prices.

For 1967 as a whole, prices farmers receive for milk likely will average near \$5.00 per 100 pounds, up from \$4.81 in 1966, and above the previous \$4.88 record high achieved in 1948. Manufacturing grade milk prices are expected to be around \$4.10 per 100 pounds, up 3 percent from last year and prices for milk eligible for the fluid market at \$5.40, up 4 percent. The 1967 increase in average prices is raising cash receipts from dairying to an estimated record \$5.8 billion, up from the \$5.5 billion of 1966. Increases in the cost of most farm production inputs are raising the cost of producing milk, so this year's net receipts from dairying likely will gain little from 1966.

In 1968, milk production may total near the 119.5-120 billion pounds anticipated for 1967. This year, milk output stabilized slightly under the 120.2 billion pounds of 1966, after falling nearly 7 billion pounds from 1964 to 1966. Farm marketings of milk and cream in 1967 are expected to be close to last year's 114.7 billion pounds, because the slight decline in milk output will be offset by farmers marketing a larger proportion of production.

Milk cow numbers in 1967 continued downward at an above average 4 percent, compared with the 6 percent drop from 1965 to 1966. Beef-cattle prices declined from the high rates of late 1965 and 1966, but cutter-canner cow prices still were high enough to encourage a substantial rate of cow culling. Improved dairy prices since mid-1966 made alternative farm enterprises and off-farm opportunities relatively less attractive than in 1965 and early 1966 and slowed the number of dairy herd sales. A firm beef-cattle market in prospect for 1968, together with rising industrial wages and employment, suggest that herd culling and dairy herd sales will continue to reduce milk cow numbers at a higher than average rate in 1968.

Milk output per cow gained around 5 percent from year earlier levels during the first quarter of 1967, but the gain slackened to 2.6 percent by September and likely will average some $3\frac{1}{2}$ percent for all of 1967. This is near the 1960-65 average gain. In 1968 ample feed supplies and lower feed prices, with about the same milk prices as 1967, should favor heavier grain and concentrate feeding. In turn, output per cow likely will increase by average or better rates--assuming normal weather and crops. The milk-feed price ratio was a record 1.54 in the first 10 months of 1967 and promises to average higher next year.

Sales of milk and dairy products (commercial disappearance) during 1967 likely will be about 4 percent under the 115 billion pounds milk equivalent (fat solids basis) of 1966. Retail price increases since mid-1966, less rise in consumer incomes than in 1966, and increased competition from substitutes have reduced dairy product sales. Retail prices were up from a year earlier by an average 10 percent in second half 1966 and 7 percent in first half 1967. Since then increases have lessened, with the September rise only 1 percent. Consumer incomes, compared with a year earlier, gained slowly in early 1967. Prospects point to a more rapid gain in coming months. With rising population, these conditions suggest that dairy sales may stabilize and recover somewhat in 1968.

Among major dairy products, only lowfat fluid items, low-fat frozen products, and cheese other than American have shown sales increases. Despite a 12 percent increase in sales of lowfat fluid milk products, nearly 1 percent fewer pounds of fluid products were sold during January-August than a year earlier.

Domestic civilian consumption is falling less than sales this year, because CCC donations of butter, cheese, and nonfat dry milk for school lunch and welfare programs--not included in sales--are likely to total more than 3 times the 1.1 billion pounds donated in 1966. Last year, CCC supplies for domestic programs were limited; this year, with ample supplies, quantities used in domestic programs are increasing and next year may total over $4\frac{1}{2}$ billion pounds milk equivalent. Increased program use and a possible rise in commercial disappearance should increase domestic consumption of milk in 1968 and may maintain per capita consumption.

Per capita consumption of milk in 1967 is expected to be about 584 pounds milk equivalent (fat solids basis), down 3 percent from the 604 pounds last year. About half of the decline is caused by lower use of fluid milk and cream. Use per person of milkfat is dropping about 3 percent; that of solids-not-fat, about 2 percent.

Commercial exports this year are falling below 0.5 billion pounds milk equivalent from 0.8 billion in 1966. As in 1966, exports of butter and cheese from CCC stocks were negligible, but some 400 million pounds of nonfat dry milk will be exported, slightly more than last year's 388 million. Increased supplies of dairy products from Europe and Oceania are moving into world trade at prices far below U. S. wholesale dairy prices.

In the first half of 1967, imports increased sharply from a year earlier. However, new quotas, effective July 1, are reducing dairy imports in the second half of this year and may limit dairy imports to about 1 billion pounds milk equivalent per calendar year. Dairy imports for all of 1967 likely will total about the same as the 2.8 billion pounds milk equivalent in 1966.

CCC purchases (delivery basis) totalled about 7 billion pounds milk equivalent by the end of October, compared with 0.2 billion for the same period of 1966. By the end of 1967, removals may approach the 1961-65 average of 8 billion pounds. The increase in CCC purchases caused Government holdings of dairy products to rise from last year's negligible levels to around 4 billion pounds milk equivalent on October 1. Most of the increase is in butter stocks. Although commercial holdings of dairy products were down about 8 percent from a year earlier, October 1 total dairy stocks amounted to 9.5 billion pounds milk equivalent, up from 6 billion in 1966. Year-end stocks likely will be above 8 billion pounds, compared with last year's 4.8 billion.

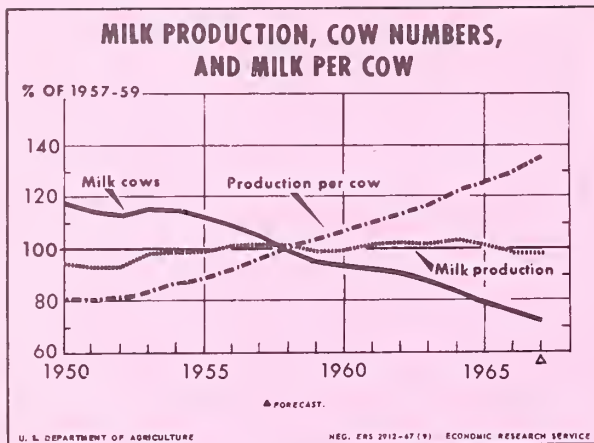


Figure 1

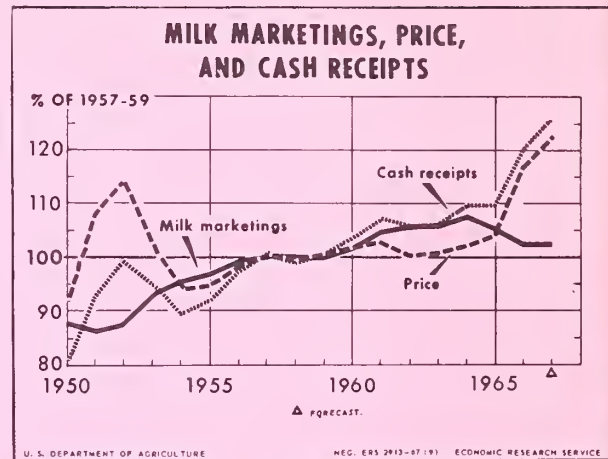


Figure 2

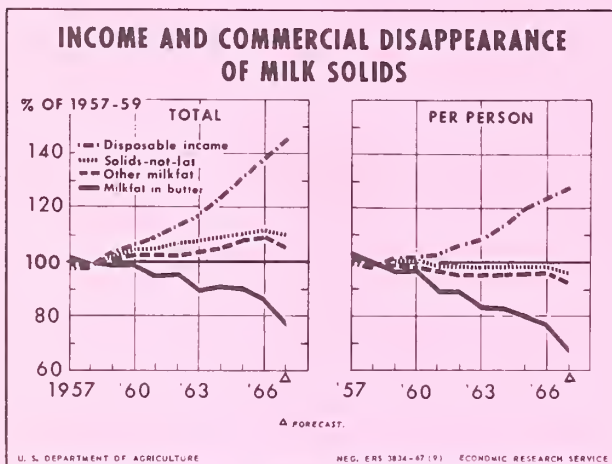


Figure 3

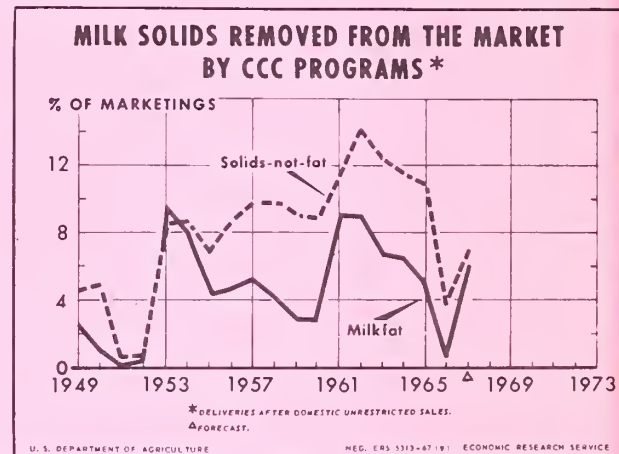
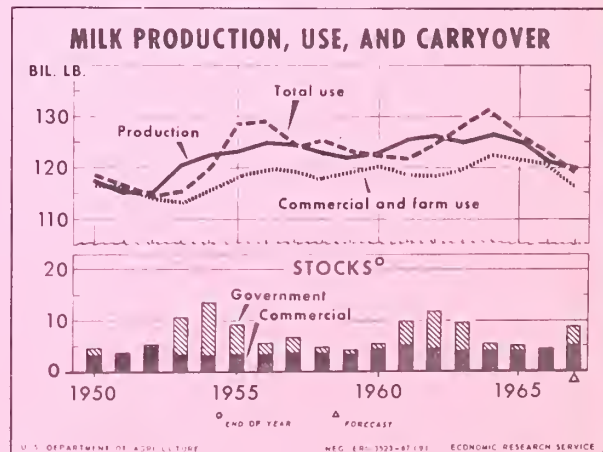
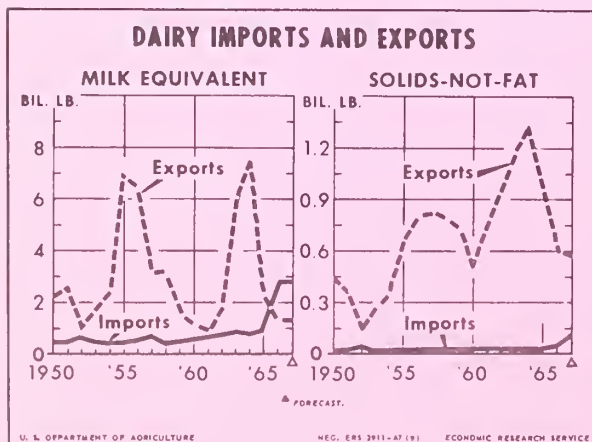


Figure 4



UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR POULTRY AND EGGS IN 1968

Talk by O. C. Hester

Economic and Statistical Analysis Division
at the Annual Agricultural Outlook Conference
Washington, D. C. 10:50 A. M., Wednesday, November 15, 1967

A cutback in egg production and a further (though relatively small) increase in poultry appears likely in 1968. Broiler output is expected to increase again in 1968, but the increase may be smaller than the 3 to 4 percent indicated for 1967. With low prices and large cold storage holdings, next year's turkey production may be cut below the record level of 1967. This would be the first reduction in turkey production in 6 years.

The moderate cutback indicated for production of eggs and turkeys and holding to a small gain in broiler production reflects producers response to lower broiler prices and further increases in production costs. In the January-September period this year, farm egg prices were down 18 percent, broiler prices were down 13 percent, and turkey prices were 12 percent below the same period last year. Feed prices increased, particularly in the first half of this year. Other production costs also increased.

Low egg prices were the result of an unusually large increase in supplies of eggs. Lower poultry prices were the result of increased supplies of poultry, and keen competition from red meats, primarily pork.

There may be somewhat less competition from red meats in 1968. This could strengthen demand for poultry. Large cold storage supplies of turkeys will be an offsetting factor. With big supplies of corn and soybeans in prospect, lower poultry feed prices are expected in 1968.

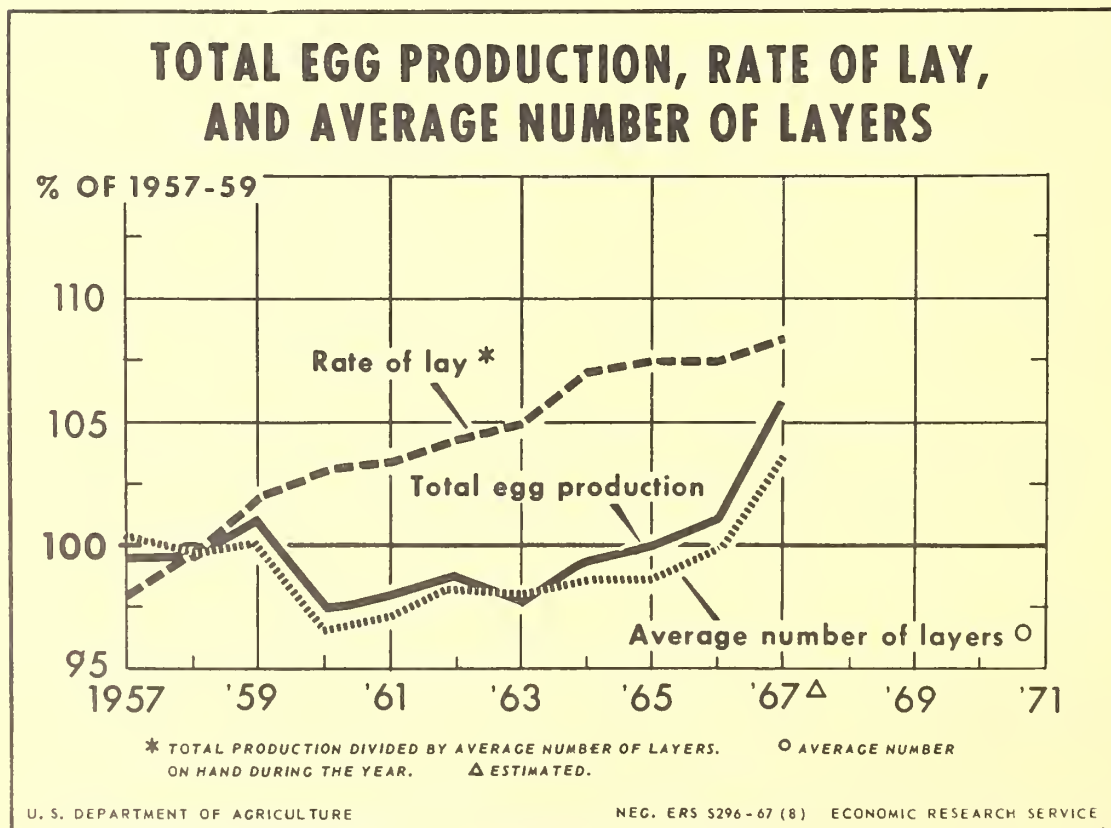
Egg production this year is expected to reach a record level, about 5 percent over 1966. Production through September was about 6.5 percent above a year earlier. Most of the increase in production was due to a larger number of layers although production was also boosted by a higher rate of lay.

On October 1, there were 400 million potential layers, 1 percent more than a year earlier. The number of pullets under 3 months old (which will enter the laying flock in early 1968) was down 3 percent. From March through September, the number of egg-type chicks hatched was about 7 percent below 1966. Also, there were fewer eggs in incubators than a year earlier. This indicates a substantial reduction in the number of pullet placements available through the first half of 1968. Production may also be reduced by a lower rate of lay, as the age of the laying flock increases.

Culling, as indicated by the Federally inspected slaughter of mature egg-type fowl, has been about 1/5 higher than last year. A continued high rate of culling in response to current low egg prices would help reduce layer numbers in the coming months. It appears that, by mid-year 1968, production may be below the high level in mid-1967.

Farm egg prices the first 9 months of this year averaged 31.4 cents per dozen, 6.8 cents per dozen under 1966. Farm egg prices averaged 32 cents in mid-September, but declined to 28.6 cents per dozen in October as production increased seasonally.

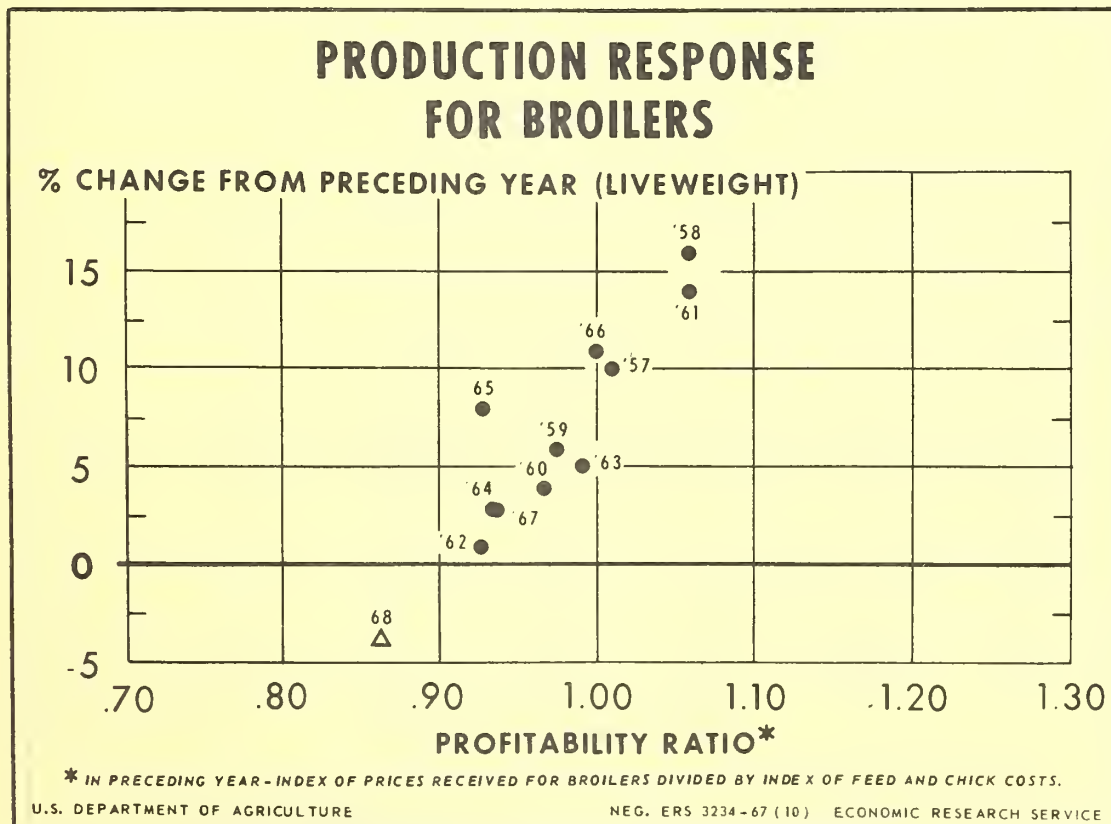
Egg prices are expected to improve from current low levels in the coming months, as production is cut back; and in the first half of 1968 will likely average about the same as in 1967. If production is cut below year-earlier levels by mid-1968 as expected, prices later in the last half may average slightly above prices in the last half of this year.



Broiler production in the first half of this year ran 6 percent above last year. However, in response to lower broiler prices and higher production costs, producers began a cutback in production about mid-year. By September, broiler output was about the same as a year earlier. It appears that output through rest of this year and into early 1968 will be below year-earlier levels.

Live broiler prices through September averaged 13.8 cents per pound, about 2 cents below 1966. The larger supply of broilers and turkeys, together with increased competition from red meats have depressed prices most of 1967. With broiler supplies expected to be a little below a year earlier for the next 4 to 6 months, broiler prices are expected to increase moderately. However, large supplies and low prices of turkeys will continue to have a dampening effect on broiler prices.

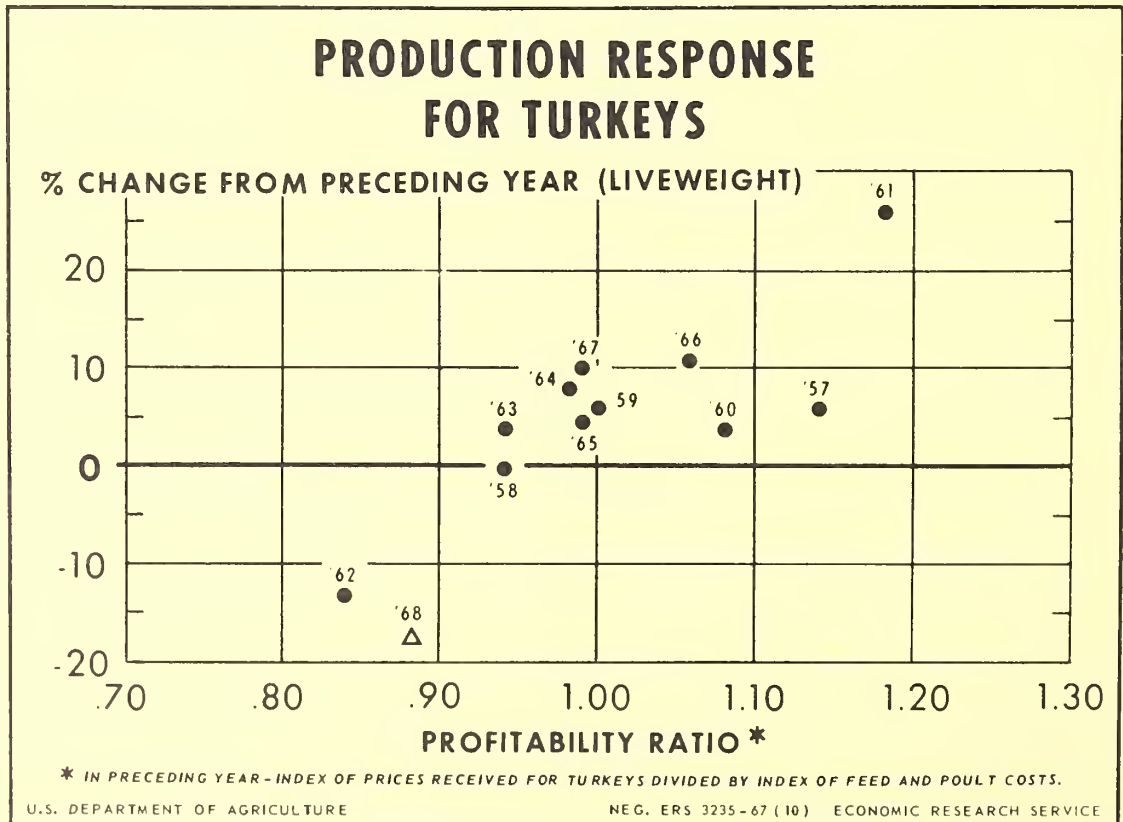
A reduction in broiler hatchery supply flocks, which were about 1/5 larger this summer than a year ago, has been underway in recent months. Placements of pullet chicks for the broiler supply flocks since early in 1967 have been below a year earlier. These placements indicate that, by mid-1968, the broiler hatchery supply flock will run well below a year earlier. This will tend to ease the pressure to expand broiler production. Even with a larger reduction in flock size, there would still be capacity for a substantial increase in production. Barring an unexpected increase in red meat supplies, a modest buildup in production is likely to get underway in the summer of 1968.



Fewer turkeys may be raised in 1968 than the record 125.6 million expected for 1967. The relatively low prices received by producers this year and the prospect of a larger carryover with continued low prices early in 1968 may result in some cutback in the numbers raised next year. The cold storage carryover of turkeys into 1968 is expected to be bigger than the relatively large amount carried into 1967.

In October, turkey breeder flock owners in 15 important turkey growing States indicated their intentions to keep 11 percent fewer turkey breeder hens for the 1968 hatching season than in 1967. Breeder flock owners indicated intentions to keep 10 percent fewer heavy breed hens and 18 percent fewer light breed hens. This survey is an important early indicator of the number of turkeys raised the following year; however, intentions at this time and final actions may differ considerably. The number of turkeys tested for pullorum in July to September was 13 percent below last year. The number of heavy breed turkeys tested was 12 percent below a year earlier, while the number of light breed turkeys tested was 21 percent under a year earlier.

Live turkey prices so far this year have averaged 20.5 cents per pound, about 2 to 3 cents below last year. With heavy marketings and a large carryover, prices through the first half of 1968 are expected to average below a year earlier. Unless producers make at least a moderate cut in 1968 production, prices in the last half of the year likely will continue at low level. If production next year is cut back as expected, prices in the last half of 1968 likely will average above 1967.



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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

THE OUTLOOK FOR VEGETABLES AND POTATOES IN 1968

Talk by Donald S. Kuryloski
Economic and Statistical Analysis Division
at the Annual Agricultural Outlook Conference
Washington, D.C., 1:30 P.M., Wednesday, November 15, 1967

GENERAL SUPPLY AND DEMAND PROSPECTS

Supplies of canned and frozen vegetables are larger than last season. Potato supplies are close to the record of a year ago, and production of sweetpotatoes is up slightly. Because of a short crop, supplies of dry edible beans are tight this season. But dry pea output was substantially larger than last year, and supplies are plentiful.

General economic activity is vigorous, and relatively large gains are in prospect in 1968. Both employment and income are expected to be at high levels. And with a larger population, this means the domestic demand for vegetables will continue strong in the year ahead.

Foreign demand for U.S. produce also is expected to be strong. Exports to Canada, the principal buyer of our vegetables and potatoes, probably will show some increase this year. A gain in sales to Europe also may occur, though expansion of this trade is often difficult because of handling problems. While exports of dry beans will be down as a result of the small U.S. supply, larger pea exports appear likely.

PROCESSED VEGETABLES

Canned vegetable supplies this season are moderately larger than the tight supplies of last season, and are close to average. Packs generally were much larger than in 1966, but beginning stocks were relatively light. Frozen vegetable supplies also are up moderately from last season to a new record.

Total planted acreage of 9 leading vegetables for processing was 7 percent larger than in 1966. Increases were made for all vegetables, with particularly large acreages planted in canning crops. The 1967 season got off to a slow start because of the cold wet spring. But summer weather was good in most areas, yields were above average, and early October reports indicated a record tonnage for processing--more than a tenth larger than last year. Sweet corn output was up moderately, while substantial gains were indicated for tomatoes and green peas. Production of lima beans, snap beans, beets, and cabbage for kraut was up sharply, and the tonnage of each was record large. An exceptionally large output also is in prospect for pickling cucumbers.

For canned vegetables, supplies of sweet corn, spinach, and the concentrated tomato products such as paste and sauce probably are close to those of last season. But there are moderately more tomatoes and tomato juice. And very large increases are indicated for other leading items, including snap beans, limas, catsup, beets, kraut, and peas.

Frozen vegetable supplies are much larger than last season, with big increases reported for all principal items. Among the larger volume vegetables, early October stocks of lima beans were moderately above a year earlier, while increases of a tenth or more were reported for sweet corn, snap beans, and peas.

Harvests of most vegetables were late this year, leading to much concern about the size of packs. This uncertainty further stimulated an already strong demand for processed products. As a result, prices generally have been running the same to a little above the high prices that prevailed last season. However, trade reports indicate buying activity has slowed in recent weeks. Since supplies of nearly all processed vegetables are plentiful and supplies of several appear large relative to prospective needs, some downward pressure on prices likely will develop in coming months. Prices for the season are expected to average a little below those of last season.

DRY BEANS AND PEAS

Dry bean supplies are relatively small this season--much smaller than the near record supply of last season. Carryover stocks were large, but production was off sharply. Bad weather restricted planting and lowered 1967-crop yields in many States. Production was the smallest since the early 1950's.

Production data by class of bean are not yet available. But output by area indicates that supplies of both white and colored beans are smaller than a year ago. Supplies of all leading classes, including pea beans, great northern, pintos, and red kidney beans are down considerably from last season.

Domestic use of dry beans is likely to be a little smaller than last season. Since supplies of the varieties preferred by foreign buyers are especially light, exports will be down sharply.

The national average support price for 1967-crop beans is \$6.37 per hundredweight, compared with \$6.33 for last year's crop. The increase is due to slightly higher rates for dark red kidney beans, and for great northern and pintos in Idaho and Montana. Rates for other classes are the same as last year. With supplies of beans small relative to needs, markets have been very strong. Prices are much above the low prices of a year earlier, and for the season, likely will average sharply higher.

Dry pea supplies are substantially above the small supply of last season, but are still below average. Beginning stocks were relatively light, but farmers planted more acreage, yields were higher, and production was 11 percent larger than in 1966. Movement of peas to domestic outlets is expected to be above that of last season. And although early season demand has been slow, total movement to foreign markets also is expected to be up. However, with supplies larger, average prices for 1967 crop peas are expected to be down moderately from the above average prices for last year's crop.

POTATOES AND SWEETPOTATOES

There has been much variation in the potato market this year. Prices were relatively high in early January, then declined steadily as remaining storage supplies proved to be greater than fresh market and processing needs. Although prices for storage stock were seriously depressed through the spring, market returns for reduced new-crop output were well above year earlier levels. Summer markets were strong because a few crops were small, and harvests in most northern States were late in getting underway. But as harvests in late-summer and fall crop areas became active, prices again moved down to low levels, reflecting prospects for a relatively large supply.

Combined production of late-summer and fall potatoes was 258 million hundredweight, about the same as in 1966. Late-summer output was smaller than last year, mainly because some late fields were reclassified as fall potatoes. But the fall crop was up 1 percent. Production in the East was 8 percent larger than in 1966. Higher yields in Pennsylvania and New York, and a larger acreage in Maine accounted for most of the increase. The Central States harvested about the same tonnage this year as last, with smaller crops in the Red River Valley and Michigan offset by increased output in Wisconsin, Ohio, and Indiana. Yields in the West were lowered by hot weather, and regional tonnage was 3 percent smaller than last year. Although many western States had fewer potatoes, most of the decline was in Idaho where both acreage and yields were down this year.

Although production is about unchanged, the potato supply now available for fall and winter marketing probably is somewhat larger than a year earlier. Despite a smaller output, the West's marketable supply likely is much larger than in 1966 when heavy storage losses occurred in Idaho. Supplies in the Midwest may be about the same as a year ago. But Eastern supplies are up. With a considerable quantity of summer-crop potatoes still to be sold, and relatively big fall crops indicated as of early October, the area's supply appears to be the largest in several years. Since potato supplies in all regions are large relative to needs, markets are expected to remain under pressure through the fall.

Sweetpotato growers planted less acreage this year. However, yields were better than in 1966, and production was up moderately. The largest increases occurred in Louisiana, North Carolina, and in the Middle Atlantic area where the long drought finally ended. Although above last year, production is still small relative to the average. Marketings currently are increasing and will be in seasonally large volume into early winter. With supplies larger, prices this fall have been a little below year earlier levels. For the season, prices to growers are expected to be relatively high, though below the exceptionally high prices of last year.

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

THE OUTLOOK FOR FRUITS AND TREE NUTS IN 1968

Talk by Charles R. Brader
Economic and Statistical Analysis Division
at the Annual Agricultural Outlook Conference
Washington, D. C., 3:00 P.M., Wednesday, November 15, 1967

General Supply and Demand Prospects

Deciduous fruit production is expected to trend upward about in line with population growth over the next few years. And citrus output may exceed population gains, barring weather disaster. In the near term, however, the outlook is much different.

Prospective supplies of fruits for marketing from now until next year's harvests are much smaller than at this time last season. Seldom can such a categorical statement be made in the perishable agricultural commodity business, with its variety of items produced in many places. But supply reductions this year range through citrus and noncitrus items--both fresh and processed.

Citrus Fruit

Early-season prospects for the 1967/68 U.S. citrus crop point to a production sharply below the record output of 1966/67. Most of the reduction is likely to take place in Florida where a February frost was followed by spring drought, and fruit sets are much smaller than last year. However, California also expects a substantially smaller crop. The Texas crop, showing massive damage from Hurricane Beulah's winds and floodwaters, will be down sharply. Only in Arizona are prospects brighter than a year ago.

Florida's orange crop is expected to total only 100 million boxes, compared to the 144 million output of last season. This unprecedented reduction is expected to take place in spite of a 10 percent increase in the number of bearing trees and larger average fruit sizes than a year ago. Fruit count per tree was estimated to be more than 40 percent below last year. And drop is expected to exceed last season's light fruit loss.

In California, the set of Navels is lighter than last year and the part of the orange crop estimated to date is expected to be down 17 percent from 1966/67. California's Valencia crop, which will not be estimated until December 1, also has a poor set.

Arizona's relatively small orange crop is expected to be slightly larger than last season. But the Texas output will probably be less than half of 1966/67.

The 1967/68 grapefruit crop (excluding the small summer crop in California) is expected to be 28 percent smaller than last season. As with oranges, the fruit count per tree in Florida is down sharply from last season. Reductions are about the same in both seedless and seeded varieties. In Texas, which produced more than 10 percent of U.S. grapefruit last season, the crop is expected to be down 70 percent. Large quantities were blown from the trees by Hurricane Beulah, and the fruit was too immature for salvage.

Among other citrus fruits, some production increases may materialize. Florida's tangelo and lime crops are expected to be larger than in 1966/67. And Arizona expects an increase in lemon output. But Florida's tangerine crop may be down more than a third from last season.

Last season, about 7.7 million tons of citrus were processed. This amounted to 2/3's of total sales and was almost 40 percent larger than the previous record quantity processed in 1961/62. About three-fourths of the oranges sold were processed, as was 55 percent of the grapefruit and nearly half the lemon crop.

The 1966/67 Florida pack of frozen orange concentrate was 80 percent larger than in the preceding season. So, in spite of reduced carryin stocks, supplies were heavy. Movement increased markedly last season, but packers' stocks remain sharply above a year ago. Inventories of frozen grapefruit concentrate are also greatly larger than a year ago. And carryover stocks of all major canned citrus items were up sharply. Thus, the general inventory situation can be expected to moderate the effects of the anticipated reduction in 1967/68 processed citrus output.

Fresh market shipments of the 1967/68 Florida citrus crop started in September, a little earlier than last year. Volume is still increasing, and it is too early to project season-average price levels with any accuracy. However, price prospects are considerably more favorable than a year ago, in view of the dramatic crop reduction.

Deciduous Fruit

Deciduous fruit production in 1967, was estimated on October 1 to be 14 percent below both last year and average. This resulted principally from cold, wet weather which affected the West, Midwest and East last spring. Plums and prunes were the only major deciduous fruits for which 1967 production exceeded previous-year levels. All other crops were smaller. Perhaps most prominent was the reduction for pears--this year's crop was 40 percent smaller than in 1966. But the peach crop was down a fifth. Tart cherry output was less than half of average and grape production was a sixth smaller than last year.

The fresh marketing season is over for most deciduous fruit crops. But such items as apples, pears, grapes and cranberries are stored fresh for later marketing. Output of all these items is smaller than last year, and markets during the next few months are likely to reflect the reduction.

Perhaps more evident will be the reduction in supplies of canned noncitrus fruits. At the start of the packing season, canners' stocks of most noncitrus items were much below year-earlier levels. And the 1967/68 pack of these items is expected to be substantially smaller than last season's output. Most commodities will share the reduction and the supply situation will be generally tight. FOB prices for most canned fruits have already moved well ahead of year-earlier levels, and this relationship is likely to continue into mid-1968.

Output of frozen deciduous fruits in 1967 may be up about the same as last year, but it will be well below 1964's record pack. On the basis of movement to processors, it appears that the pack of strawberries, the leading frozen fruit, may be less than last year. Furthermore, inventories of frozen fruits on October 1 were moderately below a year earlier, and will offer little relief in the general fruit supply picture.

Production of dried fruits in 1967/68 is expected to be considerably smaller than in 1966/67. This results from an anticipated 40 percent reduction in the output of raisins. Production of dried prunes is expected to be up substantially from last season, and raisin carryover was large. Nevertheless, dried fruit supplies will be down.

Edible Tree Nuts

The 1967 production of four major edible tree nuts--almonds, pecans, walnuts and filberts--is expected to about equal last year's output. A nearly one-third increase in pecan tonnage is expected to offset anticipated smaller crops of almonds, walnuts, and filberts.

Export Outlook

Export prospects for 1967/68 vary among major fruits, but total movement to foreign markets is likely to be somewhat smaller than in 1966/67.

Foreign demand continues to expand, but this year's broad reduction in domestic supplies of both fresh and processed fruits will likely contribute to curtailed export volume. Also, increased supplies of Mediterranean citrus are expected during the coming season, and will offer greater market competition, particularly in Western European markets. Record-large apple crops in France and Canada are likely to blunt any efforts for significant export gains for that commodity.

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR COTTON IN 1968

Talk by James R. Donald
Economic and Statistical Analysis Division
at the Annual Agricultural Outlook Conference
Washington, D.C., 2:45 P.M., Wednesday, November 15, 1967

The cotton outlook for 1968 is highlighted by another prospective sharp reduction in the carryover. By next August, stocks may total around 6-3/4 million bales. This would be a reduction of around 5-1/2 million bales from last August and about 10 million bales below record-high stocks of nearly 17 million bales on August 1, 1966 (figure 1).

The decline in stocks is a sharp reversal of the trend in 1961-65. During these 5 years, large crops and declining disappearance--particularly of cotton exports--caused the carryover to increase an average of about 2 million bales a year. At the beginning of the past crop year, cotton was the number 1 agricultural surplus problem. By next August 1, most of the surplus cotton stocks will have been liquidated.

The Food and Agriculture Act of 1965 was designed to liquidate surplus stocks over a 4-year period. The sharp reduction of cotton stocks has been brought about by reduced crops and large disappearance. Small crops have resulted from diversion of cotton acreage to soil conserving uses and 2 straight years of unfavorable planting, growing, and harvesting conditions that reduced yields. Crops have been much smaller than anticipated for 1966 and 1967. At the same time, estimated disappearance this year is almost equal to 1966/67 and about 1-1/2 million bales above 1965/66.

The outlook this year points to a 5-1/2 million-bale stock reduction, compared with last year's reduction of 4-1/2 million bales. The anticipated reduction this year is based on a crop even smaller than the 1966 crop and estimated disappearance almost equal to that of 1966/67 (figure 2).

On October 1, the 1967 crop was estimated at 8.1 million running bales. This is about 1.5 million bales below the 1966 crop and over 6.8 million bales below 1965. Both reduced acreage and a drop in yield are causing the smaller 1967 crop.

Acreage planted to the 1967 crop totals 9.7 million acres. This is 0.6 million acres less than last year. About 0.3 million acres of this reduction reflects greater diversion of acreage allotments to soil conserving uses. The other 0.3 million acres primarily reflects acreage not planted because of adverse weather, increased participation of the Cropland Adjustment Program, and downward adjustments in acreage allotments to reflect movement of allotments from low to high yielding farms.

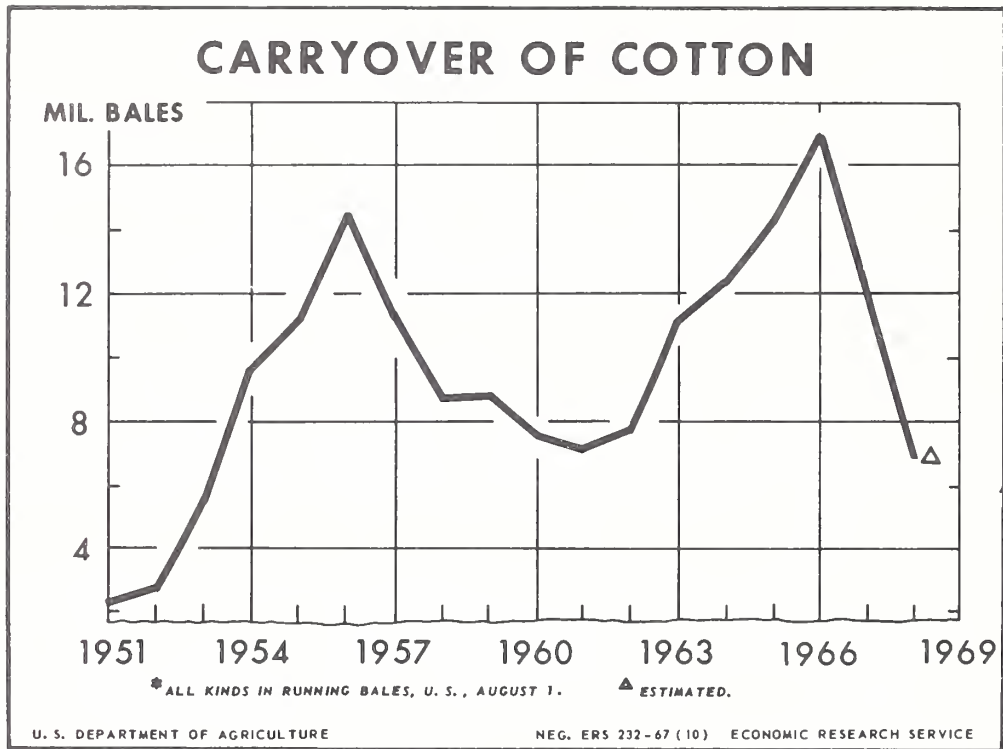


Figure 1

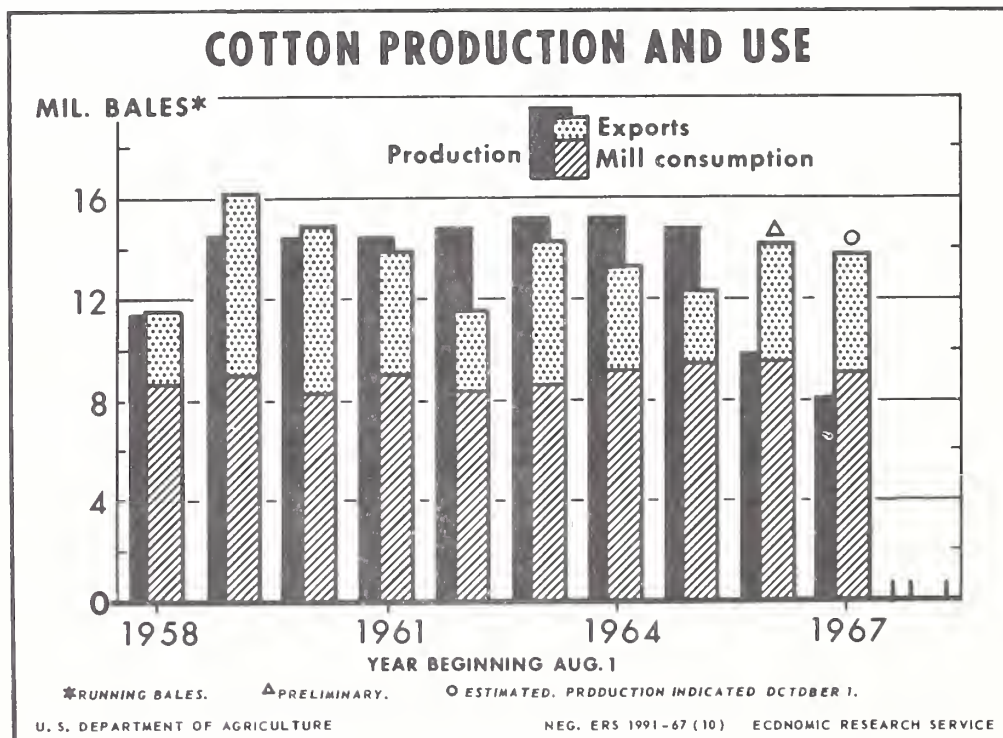


Figure 2

Estimated harvested acreage in 1967 was down 1.0 million acres from last year to 8.5 million acres. As a result of one of the worst planting and growing seasons on record, about 12 percent of planted acreage was abandoned this year. Last year's abandonment, at 7.7 percent, also was well above the 1961-65 average of 4.7 percent.

The indicated 1967 national average yield is 454 pounds per acre as of October 1, down from last year's yield of 480 pounds and the record yield of 527 pounds reached in 1965 (figure 3). The indicated yield is well below the level that would be expected on the basis of the long-term trend in yield, especially with this year's small acreage. Smaller acreage usually means greater selectivity in the use of land and more intensive cultivation. However, such practices this year are being offset by unfavorable growing conditions, including adverse weather and heavy insect damage.

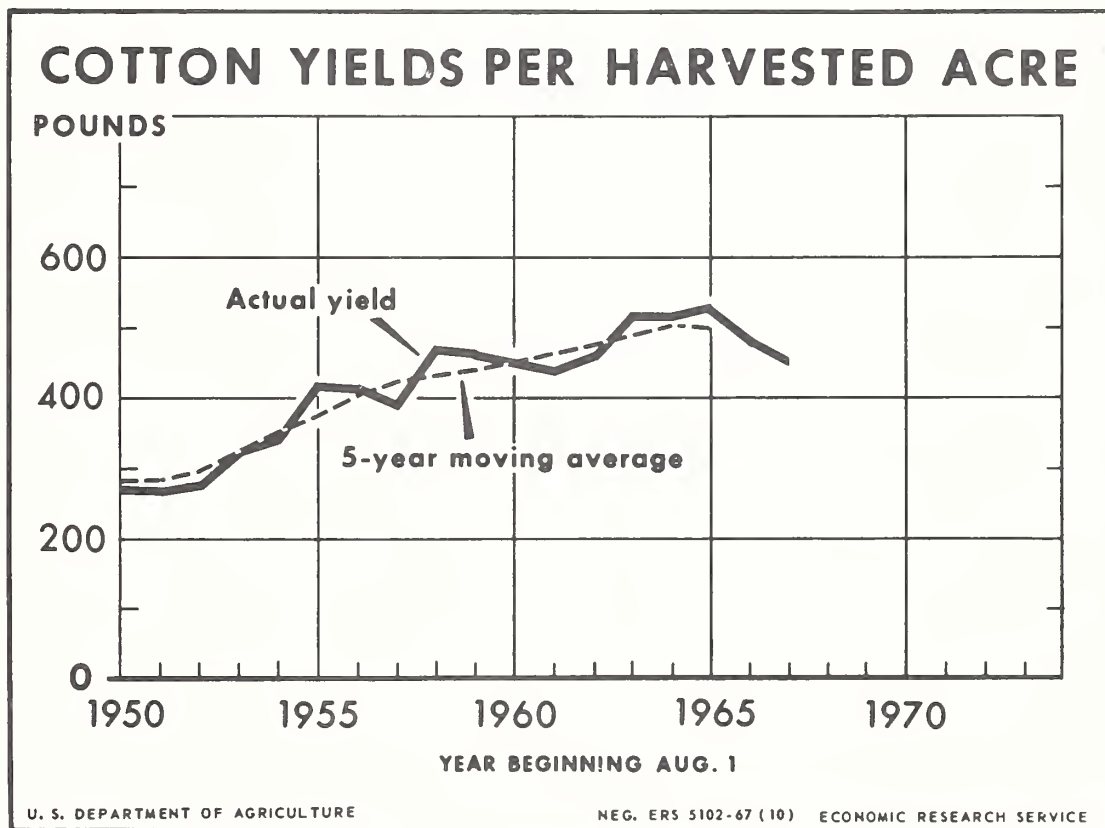


Figure 3

The long-term trend in yields is an increase of about 10 to 15 pounds per year. Factors behind this trend include: the use of land better suited to cotton production as well as increased use of fertilizer, insecticides, and herbicides. Also, larger acreage planted in skip-row patterns during 1962-65 tended to increase the average yield. Acreage planted in such patterns declined sharply in 1966, reflecting a change in measurement for allotment determinations. Skip-row acreage probably remained small this year.

On October 11, USDA announced some details of the 1968 upland cotton program. The 1968 program is designed to increase production next year to a level about in line with expected needs for mill consumption and exports, the total of which may not vary greatly from this year. The 1968 program is also designed to encourage production of a higher percentage of the medium and longer staples.

Principal changes from the 1967 program include: a reduction in the required acreage diversion percentage for program cooperators; an increase in the voluntary acreage diversion percent permitted; a reduction in the payment rate; and a liberalization of rules pertaining to measurement of acreage allotments planted in skip-row patterns. Specifically, provisions of the 1968 program include:

1. The required diversion for farmers cooperating in the acreage diversion program is 5 percent of the regular allotment, compared with 12.5 percent this year. The payment rate remains at 25 percent of parity on required diversion; but, at 10.76 cents per pound, the rate is down slightly from 10.78 cents this year because of a slightly lower parity price.

2. The payment rate for voluntary diversion (up to an additional 30 percent of the allotment compared with 22.5 percent this year) is 6.0 cents per pound--down from 10.78 cents this year.

3. The price support payment rate is 12.24 cents per pound--up from 11.53 cents for the 1967 crop. The rate is higher because of the increase in permitted acreage from 87.5 percent this year to 95.0 percent in 1968. (The price support payment, when added to the basic support price, must reflect not less than 65 percent of parity on projected production from permitted acreage.)

4. The national acreage allotment, including the national acreage reserve, remains at 16.2 million acres, while the loan rate for Middling 1-inch cotton, at average location, remains at 20.25 cents per pound.

5. Rules were liberalized pertaining to measurement of acreage allotments planted in skip-row patterns (rules used from 1962 through 1965 will be followed).

6. Small farm provisions are continued, and export market acreage remains the same as last year.

Mill consumption of cotton during the current crop year is expected to remain at a relatively high level of a little over 9 million bales. Consumption during the past 2 crop years, at about 9.5 million bales each year, was the largest since the early 1950's.

The rate of cotton consumption trended upward from the second quarter of calendar 1964 through the fourth quarter of 1966. Factors behind increased use include: (1) lower net costs of upland cotton to domestic users, provided for in legislation which became effective in April 1964; (2) an expansion in general economic activity and increasing civilian demand for textile products; (3) some rebuilding of "pipeline" stocks of textiles; and (4) increasing military requirements for cotton textile products.

The rate of cotton consumption now appears to be at or near a cyclical low point (figure 4). Prospects look good for an upturn in the rate of consumption late in 1967 or early next year. The ratio of mill fabric stocks to unfilled orders seems to have reached a peak and the downward trend in fabric prices has halted. The ratio declined in August as unfilled orders rose about 10 percent and inventories fell slightly.

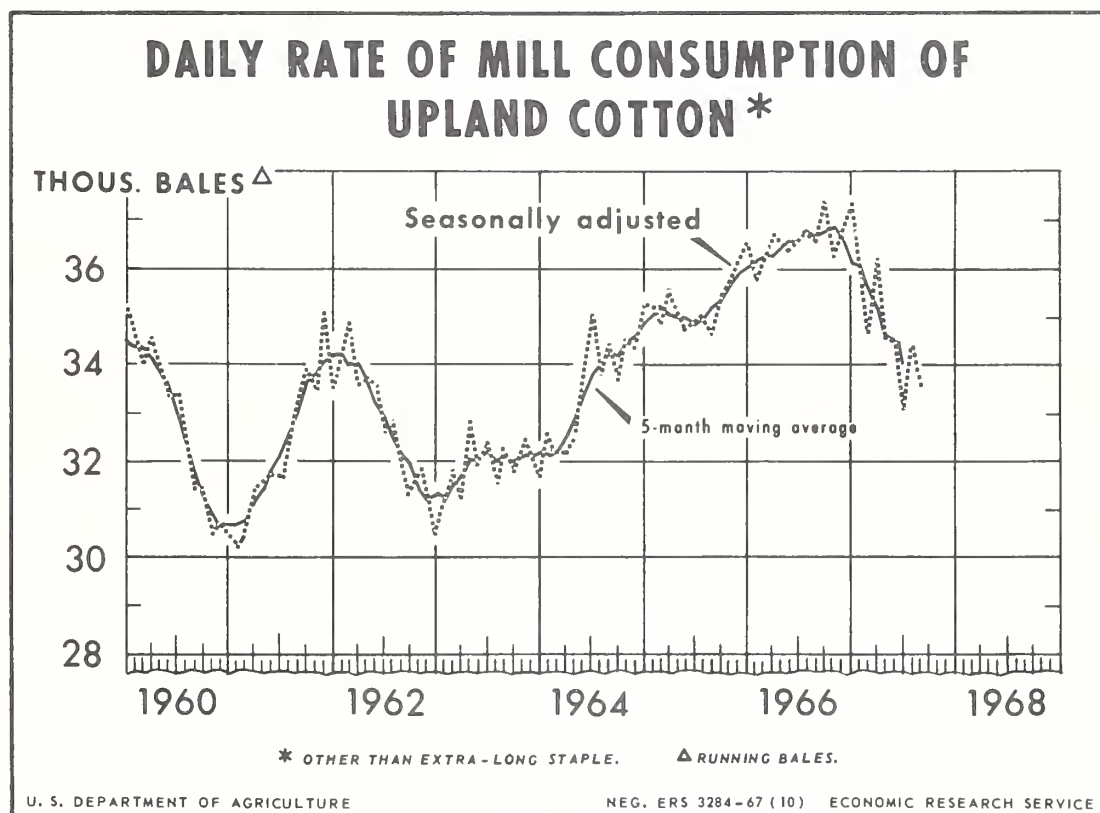


Figure 4

While the rate of cotton consumption in recent months has remained over 5 percent below year-earlier levels, the use of competitive fibers (such as rayon and acetate staple) has remained sharply below year-earlier rates (figure 5). The rate of increase in non-cellulosic staple fibers used on cotton-system spindles has remained above year-earlier levels.

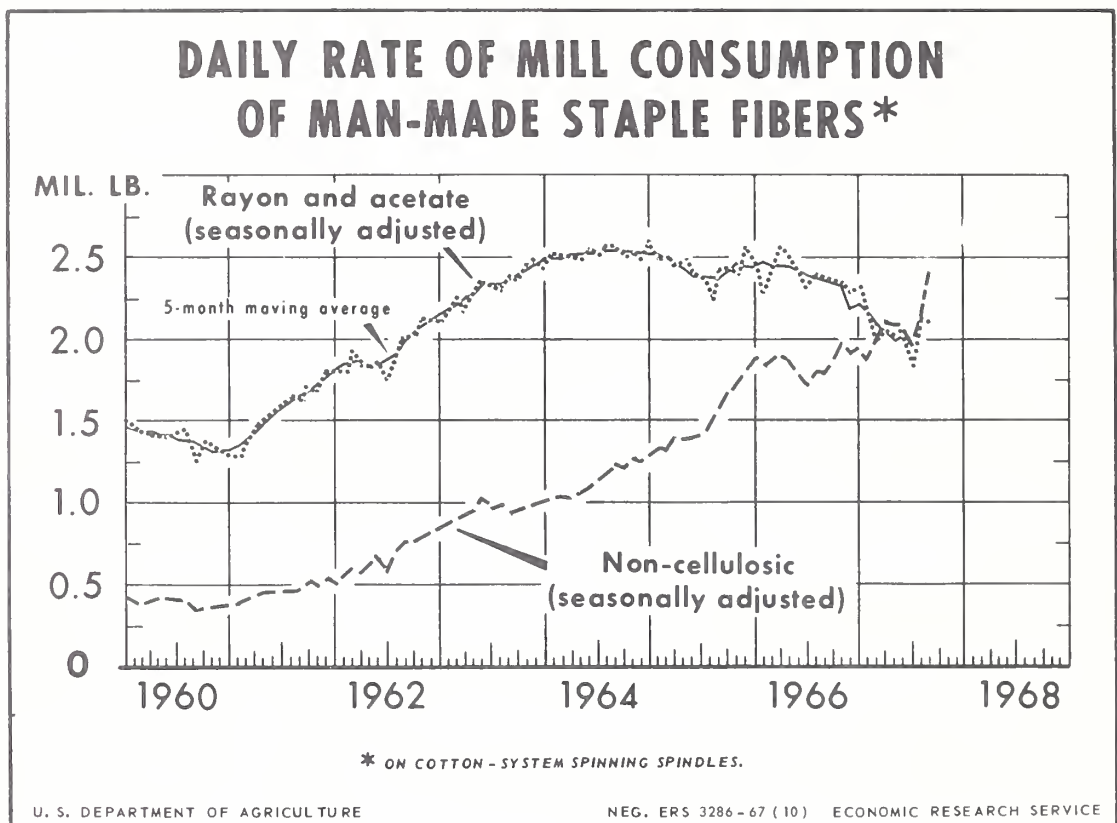


Figure 5

Per capita mill consumption of cotton for calendar 1967 is estimated at nearly 22-1/2 pounds. This would be nearly a pound, or about 5 percent, below 1966. However, cotton's share of total fiber consumption may be maintained at the 1966 level of nearly 51-1/2 percent. This would be the first year since 1960 that cotton's share has not declined (figure 6). Per capita mill consumption of all fibers, estimated at a little less than 43-1/2 pounds, would be down over 5 percent from 1966. In terms of total pounds of fibers, 1967 consumption will likely be the second largest on record.

U.S. cotton exports this year are expected to hold around last year's level of 4.7 million bales. Consumption of cotton in foreign Free-World countries is expected to reach a record high, nearly 1 million bales above 1966/67. However, production of cotton in these countries is expected to rise a little over 1 million bales, mainly reflecting prospective higher yields this year. Net imports by communist countries from Free-World countries and stocks abroad may increase slightly this year.

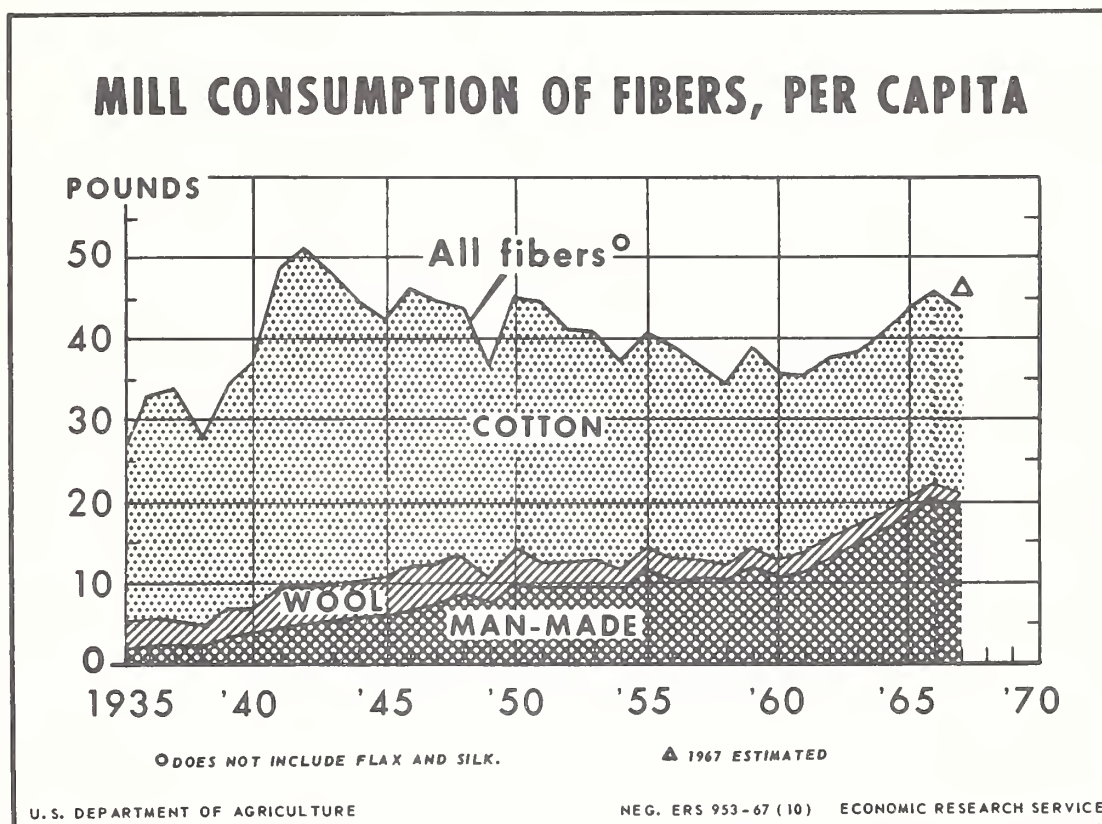


Figure 6

U.S. exports declined to 2.9 million bales during the 1965/66 crop year. In that year, production in foreign Free-World countries rose to a record high of 23.5 million bales—only 1.4 million bales below consumption in these countries (figure 7). This difference widened to around 3 million bales last year, as foreign Free-World consumption of cotton increased while production dropped. Partly because of lower world prices for cotton last year, some cotton acreage in several countries was switched to alternative crops. Also, the average yield fell last year because of unfavorable growing conditions in a number of countries. With a slightly more favorable price outlook this year, acreage in foreign Free-World countries is increasing moderately. However, the full acreage response to higher prices this year, particularly for the longer staples, probably will occur next year.

Consumption of cotton in foreign Free-World countries this year is expected to reach a new record high. Because of expected cyclical upturns in consumption in several important consuming countries—including Japan and India—and in most producing countries, it may be about 0.9 million bales above last year.

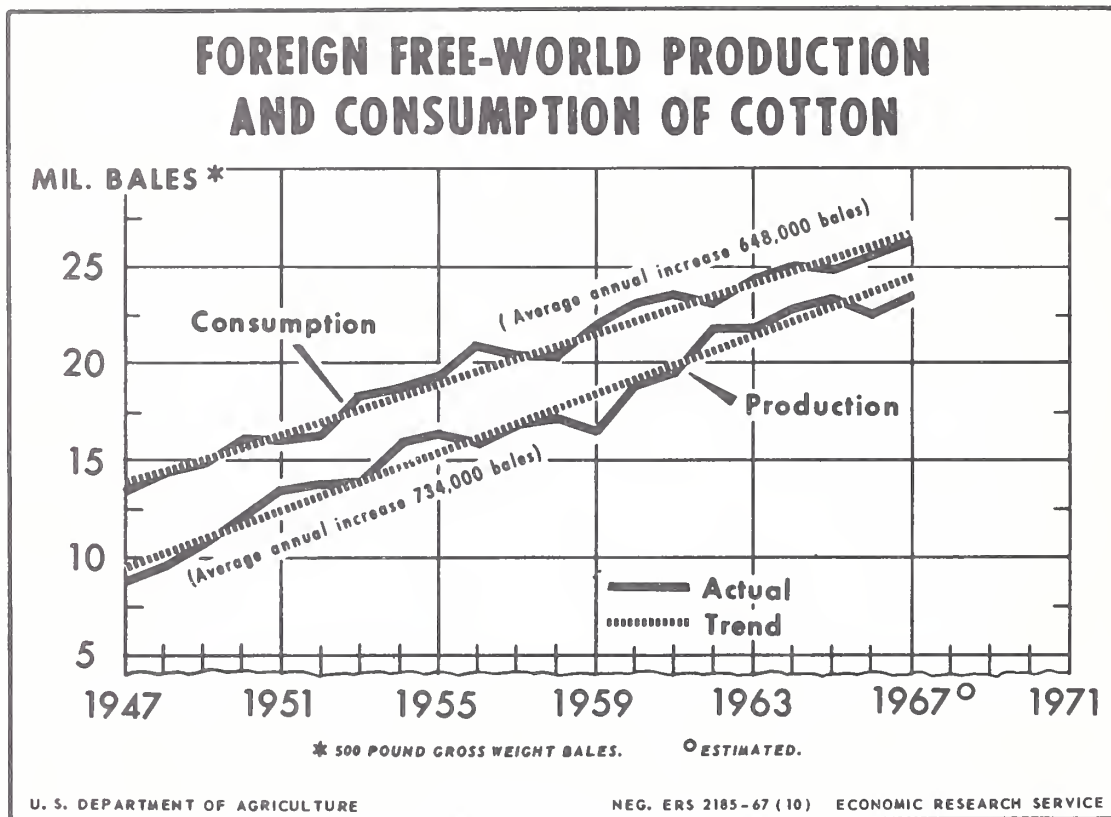


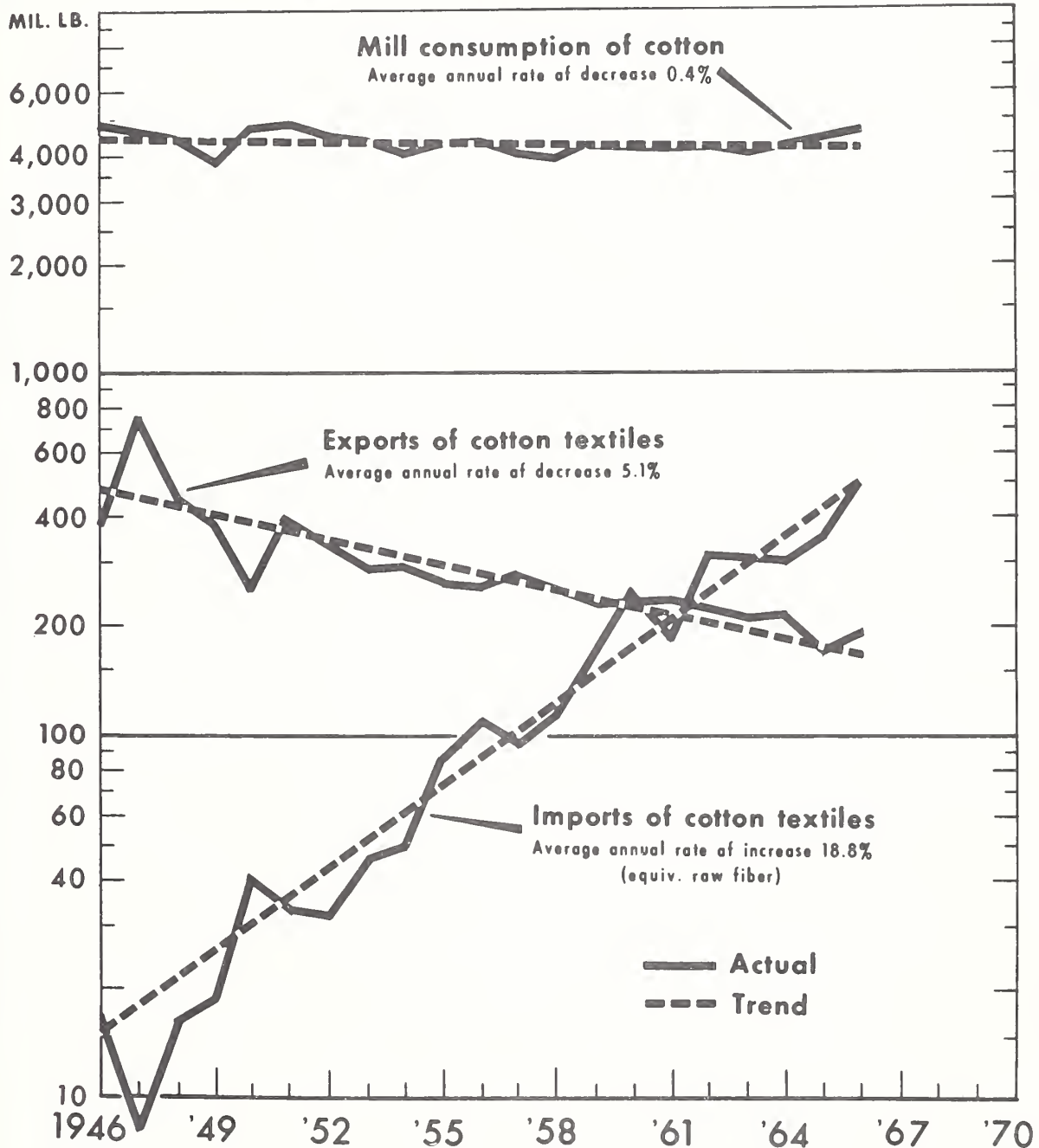
Figure 7

U.S. imports of cotton textiles have been at high levels this year. However, they will be below the record-high imports recorded in 1966, when the domestic textile industry was operating at a higher level. Imports for January-August 1967 amounted to 635,000 equivalent bales, down about 6-1/2 percent from the same period in 1966. Last year, imports reached a new record high, totaling 1,045,000 equivalent bales. U.S. exports of cotton textiles are running at about the same rate as last year, when they totaled 395,000 bales for the full year.

During the past crop year, the import-export cotton textile trade balance widened to 0.6 million bales—up from 0.5 million the previous year. Thus, domestic consumption of cotton (mill consumption, plus the raw cotton equivalent of U.S. net imports of cotton textiles) rose about 0.1 million bales during 1966/67, compared with a slight decline in mill consumption. Domestic consumption rose to 10.1 million bales in 1966/67, compared with mill use of 9.5 million bales.

Since 1946, U.S. imports of cotton textiles have increased about 19 percent per year, while exports have declined about 5 percent per year (figure 8). Mill consumption has declined slightly over the same period, about 0.4 percent annually.

U.S. POSTWAR TRENDS IN COTTON CONSUMPTION AND COTTON TEXTILE TRADE *



* TRADE DATA IN RAW COTTON EQUIVALENT POUNDS.

Figure 8

U.S. spot market prices for longer-stapled cotton have shown considerable strength over the past few months. Prices for the shorter staples have changed little--reflecting the larger supply of this cotton in relation to demand. For example, the average spot market price for Strict Middling 1-1/16 inch cotton in September, at 27.60 cents per pound, was up from 26.65 cents in August and 24.45 cents in September 1966. Prices of U.S- and foreign-grown cotton, c.i.f. Liverpool, also have trended upward in recent months, as a result of prospective smaller world supplies of longer-stapled cotton this year. The price for U.S. Strict Middling 1-1/16 inch in September averaged 30.48 cents per pound, up from 29.85 cents in August and about 3 cents per pound above September 1966. Liverpool prices for U.S.-grown cotton have continued to average near or slightly below similar qualities of foreign-grown cotton.

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UNITED STATES DEPARTMENT OF AGRICULTURE

TRENDS IN RETAIL PRICES

Talk by James C. Daugherty
Bureau of Labor Statistics, U.S. Department of Labor
at the 45th Annual Agricultural Outlook Conference
Washington, D.C. 9 A.M., Wednesday, November 15, 1967

I am delighted and honored to have been invited to participate in this conference. My task this morning is to summarize recent trends in retail prices--to tell you where we are at the present time, how we happened to get here, and to provide some educated speculation regarding future trends. Finally, I should like to describe the Consumer Price Index itself, so that you will be better able to interpret these data for yourselves and for your clients.

Price Trends

Summarizing price trends would have been considerably more difficult several months ago. At this point, however, many of the uncertainties that clouded the economic outlook during the first half of 1967 have diminished in importance or disappeared altogether. The slowdown in the economy during the last part of 1966 and first half of 1967, which was reflected in a slower rate of increase in consumer prices between October 1966 and March 1967, appears to have ended. By most indications we are experiencing a resumption of the expansion which began in 1961. This is being accompanied by increases in prices which are at rates in excess of those considered by most authorities to be "acceptable" or "moderate." I think many of us who work with these figures every day fondly, and not altogether in jest, look back upon the early 1960's, when prices were rising at a rate of less than 1-1/2 percent a year, as the "good old days." Certainly, there is no prospect that that experience will be repeated any time soon. On the other hand, there is no immediate danger that we will have the kind of price inflation we had in the early 1940's or in 1951 following the outbreak of the Korean conflict.

Price increases averaged less than 1-1/2 percent per year from mid-1958 to mid-1965, the longest period of relative stability since the 1930's. This period was one of moderate economic growth, despite a mild recession in late 1960 and early 1961. Increasing profits and generally decreasing unit labor costs together with only moderate advances in demand tempered price advances for most consumer goods. Costs of services rose, but at an annual rate of about 2 percent compared to more than 3 percent between 1956 and 1958. Commodity prices increased only 1 percent a year, compared to more than 2 percent during 1956-58.

Prices began to move upward at an accelerated rate during 1965, led by meat prices, which by December 1965 averaged about 13 percent above their December 1964 levels. For 1965 as a whole, food prices were 2-1/4 percent above their 1964 level. This was more than twice the rate of increase for the preceding 4 years. Prices of commodities other than food rose by less than 1 percent, as price reductions for many items, particularly new cars and household durables, reflected the midyear cuts in federal excise taxes. These reductions and a fall-back in used car prices offset increases for other commodities--chiefly apparel, gasoline and fuel oil. Service prices moved up at a slightly faster pace during 1965.

By the end of 1965 the economic climate had shifted from one of moderate expansion to one of rapid expansion. During most of 1966 the economy operated at the highest rates of capacity utilization in more than a decade, and rising aggregate demand put considerable upward pressure on prices. Interest rates continued to move up during most of 1966, driving interest rates on home mortgages to record levels. Rates for conventional first mortgages on new homes rose from 5.8 percent to nearly 6.5 percent between December 1965 and December 1966. The BLS index for mortgage interest rates rose by 12-1/2 percent during this time. This item alone accounted for more than one-tenth of the 3.3 percent rise in the all-items Consumer Price Index during 1966.

The rise in the CPI during 1966 was the greatest year-to-year increase since the Korean conflict. Increases in food prices were reinforced by a sharp upswing in fees for consumer services and somewhat larger increases for nondurable goods other than food. Prices of consumer durables, which had declined in 1965 chiefly as a result of the excise tax cuts, moved upward fractionally during 1966.

Service costs advanced at a rate of about 2 percent a year between 1960 and 1965. In 1966 they increased by an average of nearly 5 percent and accounted for about one-half of the change in the CPI that year. Medical care services, which had been rising between 1960 and 1965 by an average of 3.1 percent, jumped 8.1 percent during 1966, led by an increase of 16-1/2 percent in hospital room rates and nearly 8 percent in physicians' fees. The rise in hospital rates reflected the rise in demand and above-average wage increases for nurses, technicians, and custodial and supporting personnel. Other service costs turned upward sharply during 1966 and appear to have continued upward to the present time. Among those showing the largest increases are home maintenance and repairs, domestic services, laundry and drycleaning, barber and beauty shop services, and movie admissions. This can be generally attributed to the tight labor situation, which enabled service workers to gain substantial wage increases. Such increases were quickly reflected in higher prices because service industries, being highly labor-intensive, cannot absorb wage increases through increases in productivity.

Food prices continued upward during 1966, averaging 3.8 percent higher than in December 1965. However, while the principal cause of the 1965 increase was

higher meat prices, the cause of the 1966 increase was higher prices for dairy products, produce, and bakery products. Prices of food eaten away from home turned sharply upward, reflecting wage increases. Apparel and footwear prices rose at a faster rate during 1966, at first because of increased civilian and military demand and later as a reflection of rapidly increasing labor costs. Prices of gasoline and cigarettes rose because they are subject not only to "conventional" influences, but also reflected rising State and local excise taxes.

The rise in consumer prices slowed down somewhat during the last 2 months of 1966 and the first 2 months of 1967, gaining 0.3 percent for the 4-month interval. This coincided with the beginning of the general leveling-off in economic conditions, but the short-lived stability in overall prices was due primarily to decreases in food prices, which declined nearly 2 percent from their mid-1966 high levels. The first quarter of 1967 witnessed little or no real gain in the economy, but the pace quickened somewhat during the second quarter.

Consumer prices resumed their general uptrend in April 1967. During the 6 months ending in September they had risen by 1.8 percent. As of September they were 2.6 percent above September 1966. Rising service costs accounted for about two-fifths of the 6-month rise. Apparel prices, which rose more than usual in September, provided a substantial push to the overall price rise. Food prices, which declined during the first 3 months of 1967, have advanced 1-1/2 percent since March. Prices of consumer durables have moved up during most of 1967, led by advances for used cars and furniture. Appliance prices also appear to be edging upward.

I have been asked to do a little bit of forecasting. I do so with some reluctance, chiefly because there are certain risks involved, including the fact that such predictions can always be used against you when all the results are in. It is possible, however, to carry on some informed speculation about general trends.

There seems little doubt now that the economy is again moving ahead. The only question is how strong the gain will be in the coming months. Present signs point to a continuing moderate growth in the economy rather than a sharp upsurge. Consumers seem to have increased their rate of spending somewhat during the past several months, but there are no present indications that they will go on a buying spree anytime soon. While there is not much likelihood of a "demand-pull," chances are that a "cost-push" will be the dominant feature in the price picture in the months ahead. Wage increases negotiated during the first 6 months of 1967 averaged 5 percent or more annually (over the life of the contracts). The index of labor cost per unit of output in manufacturing began to turn upward in the spring of 1966 and now stands almost 7 percent above its spring 1966 levels. It is not unreasonable to expect that some of this increase in wage costs will be reflected in retail prices during the coming months.

Predictions of price changes for 1968 have ranged as high as 6 percent. However, my own personal opinion is that the rise will be at a more moderate pace but still in excess of increases experienced during the past several years. Advances in the CPI between now and December 1967 will carry the index to a point somewhere between 2-1/2 and 3 percent above its December 1966 level. It is likely that prices of consumer goods will rise at a faster pace in 1968 than in 1966 and 1967, and that service costs will continue upward at about their 1967 rates. As a result, the overall CPI will advance at a faster pace than it has in 1967--probably by an additional 3 to 3-1/2 percent.

The rate of increase in prices will vary among the four major components of the CPI, but increases for all groups will exceed those in 1967. Consumer service costs should advance at a slightly faster pace in 1968 than in 1967 and continue to be the dominant factor in the rise in the all-items CPI. Somewhat higher mortgage interest costs and increases for medical care, personal care and household services will continue to push these prices higher.

Higher apparel prices are likely to come chiefly from increasing costs, although consumer demand will remain high. During 1967, much of the pressure on apparel prices has come from widening retail margins. This trend will continue in response to rising costs of operation. Rising unit labor costs in apparel manufacturing will continue to push manufacturers' prices up.

Prices of consumer durables are expected to advance significantly during the coming months, reflecting higher costs and gains in demand. Retail prices of appliances, radios and television sets are already responding to increases in factory prices and demand is apparently strong enough to sustain retail price increases for these. Higher costs at the factory and in distribution will result in higher price tags for furniture and tires. New and used car prices will rise at least as much as in 1967.

Mr. Hiemstra has already spoken about the outlook for food prices. In general, it is expected that overall food prices will rise at a somewhat faster pace in 1968 than in 1967. Costs of food eaten away from home, which have risen 5 percent during 1967, providing the main impetus to the overall food rise, will advance at least 5 percent during 1968.

The Consumer Price Index

The Consumer Price Index is not always understood by the public at large and is often misinterpreted. This is obvious from the mail that we receive here in Washington, angry and otherwise. Although every housewife is not an economist or statistician, she can tell almost to the penny how much her living costs have gone up. Hopefully, it is possible to relate the index as it is compiled and published by the Bureau of Labor Statistics to the experience of the individual shopper, at least in a general way.

The Consumer Price Index (CPI) is defined as a "statistical measure of changes in prices of goods and services bought by urban wage earners and clerical workers, including families and single persons." The CPI is popularly called a "cost of living index," although it measures only the one most important aspect of changes in the cost of living--price change. All other factors affecting the cost of living--changes in consumer preferences, changes in incomes and buying habits, and changes in the availability of goods and services in the market place, to name only a few--are not measured by the index. Stated another way, the CPI measures price change for a fixed "market basket" of goods and services which are representative of all goods and services purchased by urban wage earners and clerical workers.

The present index is based upon a comprehensive revision introduced in January 1964. The BLS made a Consumer Expenditure Survey in 1960 and 1961 to ascertain the pattern of spending by wage earners and clerical workers. The survey included 72 cities, selected to represent all urban places in the United States. Detailed records of the annual amounts spent for goods and services of all kinds were obtained. A total of 4,912 urban wage earner and clerical worker families and 585 single workers provided the data on which the current index weights are based.

The CPI measures price changes for everything consumers buy for living--food, clothing, laundry services, household furnishings, doctors' fees, and so on. With the addition of funeral services to the sample of priced items in 1964 (we have been pricing obstetrical care for a good many years), it can now be said that the CPI coverage has been expanded--from the womb to the tomb and everything in between. Sales, excise and real estate taxes are included in the index, but personal taxes, such as income, personal property, and Social Security taxes are not.

Obviously it is not possible to price every item purchased by consumers in every outlet in every city. The CPI is based upon a series of samples--of cities, items, and retail stores. Prices are collected in 56 cities and metropolitan areas, ranging in size from Mangum, Oklahoma (1960 population 3,950) to Los Angeles and New York. Except for the 12 largest, each of the cities and areas was selected to represent others of the same size class within each of 4 broad geographical areas. For example, Kingston, New York and Southbridge, Massachusetts together represent all cities of from 2,500 to 49,999 population in the Northeast. The 12 largest metropolitan areas represent only themselves.

Prices for a "market basket" of 400 items are used in the index calculation. These include all of the most important items consumers buy and a sample of the less important ones. The contents of the market basket--in terms of items, quantities, and qualities--are kept essentially unchanged between major revisions.

The meaning of the index.--The CPI measures price change from a designated reference period. It does not measure changes in living costs, or intercity price differences, or specify the amounts needed for living at a given level or

standard of living. The fact that an index for one area is higher than that for another tells only how much more prices have increased in the first area. It does not indicate how much more it costs to live in one place than in the other. Since 1962, the index has been on the base of 1957-59 = 100 (i.e., the average of the 3 years 1957, 1958, and 1959 represents 100), and indicates the percentage that prices have increased or decreased since 1957-59. "Translated" in this manner, the September 1967 index of 117.1 indicates that prices have risen 17.1 percent since 1957-59. An index of 95.0 would indicate that prices had decreased 5 percent during the same interval.

Publication of data.--The CPI is published every month for the average of U.S. cities and for the 5 largest metropolitan areas. Indexes for 18 additional large metropolitan areas are published quarterly. Indexes for food subgroups are published monthly for the U.S. average and the 23 largest cities, and U.S. indexes for individual food items are published monthly. In January 1966, BLS began to publish seasonally adjusted U.S. indexes for selected groups and subgroups for which there is a significant seasonal pattern of price change (and for individual food items). The all-items index is not seasonally adjusted because it has no significant seasonal movement.

Price collection.--The prices used in the index are collected at specified intervals, mainly by personal visit of highly trained BLS field agents to a representative sample of about 18,000 retail stores and service establishments, including grocery stores, department stores, bowling alleys, psychiatrists, and barber shops, to name a few. Field agents obtain rental rates from about 40,000 tenants. Because price changes due to quality differences must be kept out of the index measurement, BLS has prepared detailed specifications for nearly all of the items in the market basket, to enable the field agents to identify the item to be priced. The specifications give such features as size, style, grade of workmanship, and construction.

Where pricing by personal visit is not necessary or practicable, BLS collects the data by mail questionnaire or from secondary sources. Mail questionnaires are used for such items as local transit rates, public utility charges, and newspapers. Prices for used cars, home purchase, mortgage interest, magazines and books, and college tuition are collected from Government agencies and private business or trade groups.

Uses and limitations.--The CPI is used extensively in labor-management contracts to adjust wages. Automatic adjustments based on changes in the index are incorporated in some wage contracts and in a variety of other types of contracts, such as long-term leases. The CPI is used as a measure of changes in the purchasing power of the dollar for such purposes as adjusting pensions, welfare payments, and alimony payments. It also is used as a reflection of inflationary or deflationary trends, and in policymaking in Government and industry. It helps the general public to understand what is happening to family finances.

The CPI is an estimate, not an exact measurement of changes in retail prices. It is subject to sampling errors which are an unavoidable part of any sample survey. Although the errors could be reduced if larger samples were used the cost would be prohibitive and the results would probably not be significantly better even if the sample were 4 or 5 times as large. It should be emphasized that the CPI represents the average change in prices for urban wage earners and clerical workers as a group, but not necessarily for any one family or small group of families. It is not applicable to other groups, such as farmers or retired persons.

A frequently-cited source of error in the CPI is BLS's alleged failure to factor out price changes due to improvements in the quality of goods and services. The BLS makes every effort to adjust prices for such changes. While the present techniques are by no means perfect, it is felt that they do not result in any systematic upward bias. It is believed by people well versed in index procedures that the CPI is a sufficiently accurate indicator of retail price trends to be appropriate for most of the purposes for which it is used.

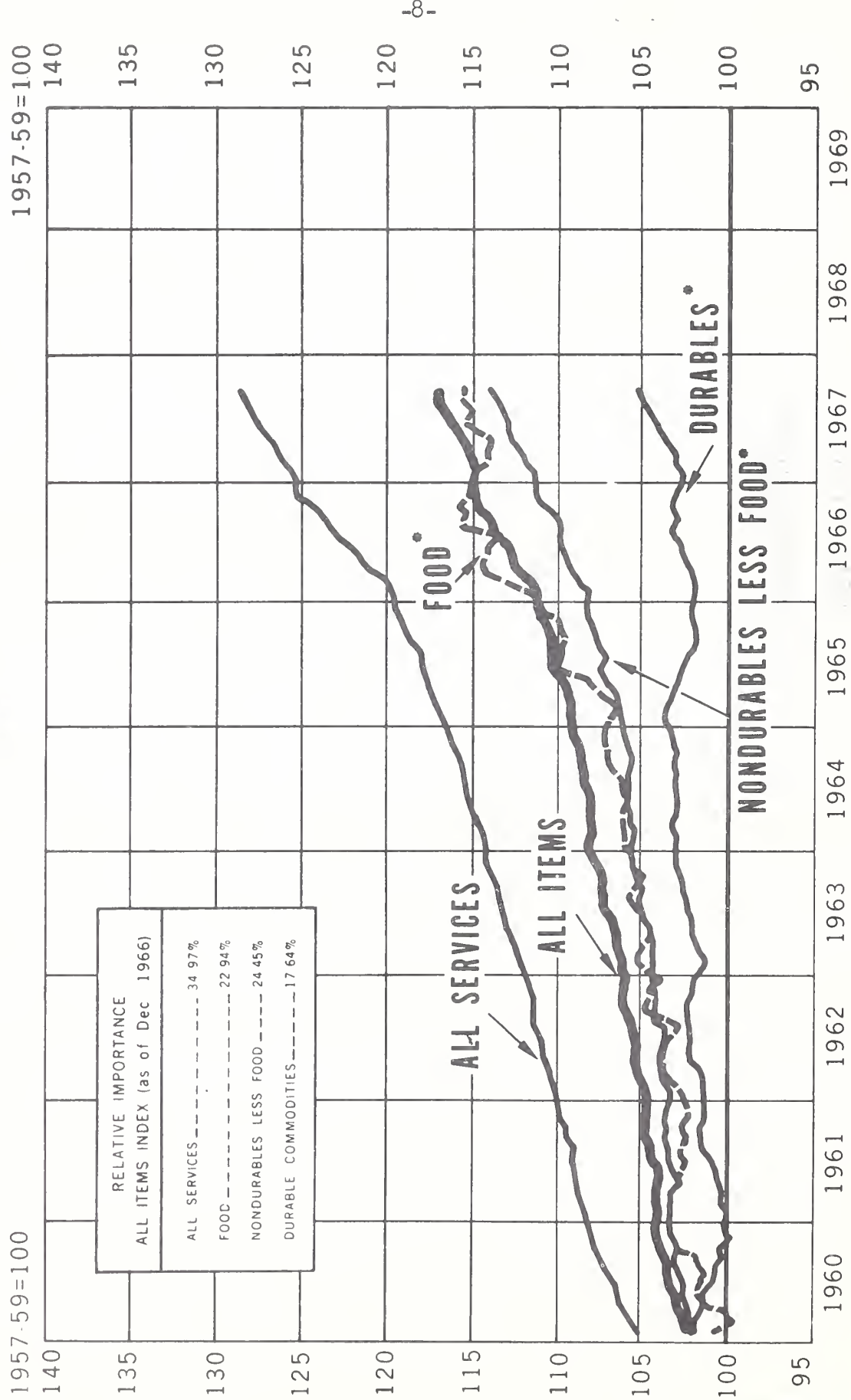
Consumer Price Index - Quarterly and Annual Percent Changes, Selected Periods

Period	1st Quarter (Dec.- Mar.)	2d Quarter (Mar.- June)	3rd Quarter (June- Sept.)	4th Quarter (Sept.- Dec.)	Year	
					(Dec.- Dec.)	(Annual Average)
	<u>Pct.</u>	<u>Pct.</u>	<u>Pct.</u>	<u>Pct.</u>	<u>Pct.</u>	<u>Pct.</u>
1956	0	1.2	0.7	0.8	2.9	1.5
1957	0.7	1.1	0.7	0.4	3.0	3.5
1958	1.4	0.3	0	0	1.7	2.8
1959-1964 (Average)	0.2	0.4	0.5	0.2	1.3	1.2
1965	0.2	1.0	0.1	0.7	2.0	1.7
1966	0.9	0.8	1.1	0.5	3.3	2.9
1967	0.3	0.9	0.9	0.6*	2.7*	-

* Projected.

CONSUMER PRICE INDEXES: COMMODITIES AND SERVICES

*(Seasonally Adjusted)



UNITED STATES DEPARTMENT OF AGRICULTURE

THE FEDERAL MEDICARE PROGRAM

Talk by John Noble

Bureau of Health Insurance, Social Security Administration
at the 45th Annual Agricultural Outlook Conference
Washington, D. C., 9:45 A.M., Wednesday, November 15, 1967

It is a pleasure to be here with you today to discuss the Federal medicare program -- past, present, and prospective.

The launching of Title XVIII -- popularly known as Medicare -- on July 1, 1966 was preceded by more man-hours of planning and implementation than any other peacetime operation in the history of our country.

One of the primary tasks of the Social Security Administration, of course, was to develop a wide range of policies and procedures to govern the operation of the program. In this process, we felt that we had an essential responsibility to insure that the continuing advice and counsel of the health community, the insurance industry, and other interested parties would be reflected.

Medicare's administration required that many new interrelationships be established by the Federal government with a variety of groups and organizations. These included State health and welfare agencies, the nation's hospital system, extended care facilities, home health agencies, independent laboratories, and some 250,000 practicing physicians.

Named as fiscal intermediaries were the Blue Cross Association with its 74 Blue Cross Plans, in addition to 11 commercial insurance companies and one independent insurer. Carriers selected include 33 Blue Shield Plans, 15 commercial insurance companies, an independent insurer, and a State agency. There are also 67 group practice prepayment plans which participate.

In very brief form, this will give you some idea of the depth and scope of the planning that went into Medicare before the first claim could be paid.

Let me turn now to some of the accomplishments of Medicare. We believe Medicare has gotten off to a very good start in its goal of financing high-quality medical care for our older citizens within the framework of the existing health care system. Medicare has proved that it can work within that framework -- and month by month the number of people that it has helped continues to mount. At the same time, the claims processing operation across the nation has improved rapidly from the standpoint of both speed and efficiency as carriers, beneficiaries, and physicians have become more familiar with the program.

I would like to discuss the status of Medicare in connection with the beneficiaries of the program -- those 19 million Americans age 65 and over who are covered under the hospital insurance part and the 17.7 million older citizens who have enrolled in the voluntary medical insurance part.

There is no question that Medicare already has served this age group to a substantial degree. During the first year, \$2.5 billion was paid for hospital insurance benefits and an additional \$669 million was paid for medical insurance benefits.

There were 5 million hospital admissions for inpatient care. When this figure is adjusted for readmissions, we would estimate that about 4.0 million beneficiaries received inpatient hospital services during the first year of Medicare. What is probably more significant than these numbers is the fact that many of these persons were receiving care for the first time as insured patients. Many who formerly would have been ward patients have a new status -- that of semiprivate patients who, if they wish, can have services performed by physicians of their own choice. And -- perhaps of equal importance -- many have gained a peace of mind which cannot be measured, in the knowledge that medical expenses will not result in serious depletion of savings or require heavy financial assistance from children.

In respect to medical care, carriers paid over 14 million bills for services performed by physicians, independent laboratories, and other providers of benefits. Of these, over 90 percent were for physicians' services. It should be noted that medical insurance under Medicare includes not only in-hospital doctors' services, but also provides reimbursement for the cost of such services in the patient's home or the doctor's office.

These are, of course, the two major coverages under Medicare -- inpatient hospital services and physicians' services. It is difficult to measure, at this point, either the full impact of services that have already been received or the effect of the assurance that future necessary services will largely be paid for. For one thing, I think that more of the elderly will secure needed health services earlier in an illness than before, because the cost factor is no longer such an overriding consideration. I think this means that fewer of the elderly, in the future, will progress so far in the degenerative diseases before they receive medical attention, and that fewer will deteriorate into chronic care patients. We have talked so long about the importance of early medical care, and yet we have watched many of the elderly -- decade after decade -- receive medical care too late. I consider Medicare to be the beginning of the end of most such tragic events.

Medicare, of course, is not the full answer to this problem, but Medicare has placed the vast majority of the elderly in the position of being able to afford the care they need. As a group, they simply did not have that ability prior to Medicare. In all frankness, even though most physicians and the health community were willing to render free care, it cannot be ignored that

the patient also had to consent to charity. Pride is a widespread trait in the elderly and I think that many of our older citizens -- for that reason -- refrained from accepting charity care at the expense of their health.

In respect to services provided to beneficiaries by home health agencies, we received 228,000 "start of care" notices, about 70 percent under the medical insurance program and 30 percent under the hospital insurance program. During the year, 450,000 bills for home health services were paid.

From January 1, 1967, when the extended care benefit became effective, to June 30, there were 199,000 admissions to extended care facilities. In the six-month period, 330,000 bills for extended care services were paid.

These two types of benefits -- home health care and extended care -- exemplify the ways in which Medicare is stimulating the growth of new concepts in health care. It is true that these services have existed in the past in some communities, but they have often been underutilized despite their acknowledged medical merit. A major reason was that few private insurance programs included coverage for such benefits. Another reason was that neither level of service had received full recognition among the professional community prior to the present efforts being made to upgrade facilities, improve the professional status of their personnel, and bring to the attention of physicians the full scope of their services. We all recognize that there is a tremendous need for these services, because they are often better-suited, both medically and psychologically, to the health care requirements of patients at successive stages of illness. Moreover, they can play a major role in the future in relieving hospitals of the unnecessary burden of expanding staff and facilities to care for persons who do not need the intense, multi-faceted care that hospitals are designed and equipped to provide.

Of course, hospital services to outpatients are another important device for relieving pressure on inpatient facilities, and 1.2 million bills for outpatient hospital services were paid during the first year. Admittedly, this has been a complex and difficult benefit to administer because of some of the provisions written into the present law. However, certain legislative changes, we hope, will result in a simplified outpatient hospital benefit and a more manageable claims process in this area. I will discuss these and other possible legislative changes later.

Let me turn now to another aspect of the status of Medicare -- its status in respect to the health community.

I think it can fairly be said that Medicare has already had a profound influence on the general health community. Most dramatic has been the process of certifying facilities for participation and what it has accomplished. As you know, in order for a hospital, extended care facility, home health agency, or independent laboratory to participate in the program as a reimbursable provider of health services, it must meet conditions of participation designed to assure that the facility can render quality care, both in terms of its

physical environment and in the adequacy and professional qualifications of its staff. The conditions are set at a very high level, and the fact that they have been fully met -- or met substantially enough for temporary approval -- by 6,800 hospitals, over 4,000 extended care facilities, more than 1,800 home health agencies, and nearly 2,400 independent laboratories is a notable achievement. Let us look at one specific example. Until July 1, 1966, home health agencies in most communities furnished only visiting nurses' services. One of the conditions of participation for home health agencies was the requirement that they must provide at least one additional health service beyond visiting nurses' care. As a result, all of the 1,800 participating home health agencies -- virtually the entire number of such agencies in the nation -- now provide at least one additional service. Nearly two-thirds provide two or more services in addition to nursing care. It should be noted that this expanded capacity in the services of home health agencies is not restricted to Medicare beneficiaries; thus, this is a dramatic example of the important influence of Medicare on the nation's health care system. In one substantial step, the entire home health care area has been elevated to a far higher level of capacity to meet health needs of our citizens.

Let me give you another example -- utilization review. We usually think of utilization review as having a single purpose -- through review of long-stay cases, to assure that institutional care is not excessively utilized under the program when alternative levels of care are medically indicated. However, on a long-range basis, there may be an even more important result of this provision. In its sample review of all long-stay institutional cases under Medicare -- in analyzing admission patterns, lengths of stay and treatment modes by diagnostic or other classifications -- the utilization review function can in time produce a large body of valuable information which will make an important contribution to improvements in medical aspects of institutional care. It is the educational potential of such data -- maintained and used locally by the institution's own medical staff -- which deserves fully as much attention as the individual case review function of the utilization review committee. I am not implying that the advent of Medicare and utilization review were simultaneous; on the contrary, many hospitals had formal or informal utilization review committees prior to Medicare. Medicare's role, however, was to extend to all participating institutions the requirement that they establish formal review mechanisms to fulfill what is essentially a function of the organized staff. In this provision lies the firm assurance that patient care policies and practices will remain in the hands of the profession itself. While considerable latitude is permitted in the methods of utilization review, I think this is another dramatic example of how, with the advent of Medicare, a significant change took place in the entire health care system. And these kinds of changes, I think, are permanent landmarks.

Another very important relationship between Medicare and the health community lies in our reimbursement approach. We are statutorily committed to paying "reasonable costs" for institutional services and "reasonable charges" for physicians' services. The program did not have to take this direction.

If we were to have followed the usual pattern in the health insurance field, institutional reimbursement could have been based upon a fixed fee schedule, which is a common practice among many insurers. The program chose, however, to reimburse the health community at a level that would represent, as nearly as possible, the actual costs and the "going rate" of health services. That decision will have profound consequences for the health community, for other government programs which reimburse providers of health services, and for other third-party payers in the private insurance sector. The consequence that is intended, of course, is that if we pay a fair price for quality care, our beneficiaries will receive quality care. I should note that if the reimbursement principles we have adopted have the effect of inflating the price of care without elevating the quality of care, that would be a deplorable consequence, since it might curtail the great potential for the health community which lies within the principles we have adopted. I think it goes virtually without saying that the financial support that Medicare reimbursement will provide to the health community on a long-term predictable basis will go far in encouraging their own long-range planning for the improvement of their health care capacity.

Turning specifically to the physician sector, medical insurance under Medicare bases reimbursement for a physician's services on his customary charges and on prevailing charges within his area of practice. The reasonable charge approach, as opposed to fee schedules, is the more complex way for us but the fairer way from the standpoint of the physician. Through payment of reasonable charges, physicians will finally be assured of fair and equitable reimbursement for the many elderly patients who were treated on a reduced-fee or no-fee basis in the past. Under Medicare, there no longer is any reason why Medicare beneficiaries should not be charged a physician's usual and customary fee, nor is there any reason why they should not have the full status of all other paying patients.

I would like to call your attention to one other aspect of the Medicare program which, I believe, cannot fail to have a beneficial long-range effect on the medical care picture in this nation.

In addition to its contribution to the upgrading of care -- both on a short-range and long-range basis -- and its direct impact in assuring protection to the elderly against most of their health care costs, I think Medicare will have still another far-reaching consequence. That consequence will be its establishment of a standard, in relation to its broad spectrum of benefits, against which persons under age 65 will measure the adequacy of their own health insurance coverage. Medicare's incorporation of outpatient coverage, extended care, home health care, and physicians' home and office services into a single comprehensive package of protection will have a powerful influence in determining what the public will consider adequate health care coverage in the future -- and the direction which the delivery of services by the health community will be expected to take.

In closing, I would like to briefly outline some probably legislative changes which will affect Medicare.

1. A new optional method for payment of physicians' bills will permit payment to be made on the basis of an itemized, but unreceipted, bill in lieu of an assignment.
2. Outpatient hospital diagnostic services will be transferred from hospital insurance to medical insurance. Pathology and radiology services performed for hospital inpatients will be exempt from the deductible and coinsurance provisions of the medical insurance program.
3. Podiatrist's services will be covered, with the exception of routine foot care.
4. The initial certification requirement by physicians for hospital admissions and outpatient hospital services will be eliminated, except for admissions to psychiatric and tuberculosis institutions. Physician certification of extended-stay cases will be retained.
5. There will be an additional 30 days of coverage for inpatient hospital services in each spell of illness, bringing the total days to 120. The coinsurance for each of the 30 additional days will be one-half the inpatient hospital deductible.
6. The Secretary of Health, Education, and Welfare will be authorized to experiment in reimbursing a limited number of organizations and institutions on a basis other than that of reasonable costs. The purpose would be to increase the efficiency and economy of providing health services while maintaining quality of care.
7. An advisory council will be appointed next year to study the feasibility of providing health insurance protection for the disabled under Title XVIII, and will report its findings no later than January 1, 1969.

In this short discussion, I have tried to give you an overall picture of Medicare -- past, present, and prospective. I would like to emphasize one additional point.

I believe Medicare has already demonstrated that the Government and the health community can work together well in common recognition that our purposes and goals are not really in conflict. I think the law's administration has affirmed Medicare's basic reason for being -- to provide a financing mechanism for a broad spectrum of services without altering the primacy of the medical judgment of the

physician's medical judgment in medical matters. I think the health community is becoming increasingly reassured -- through our continuing dialogue with them and through the program's performance itself -- that we have no intention of encroaching on their professional relationships and every intention of reimbursing their services in the fairest and most equitable manner possible. I think, in the final analysis, this growing confidence and rapport between Government and the health community may be one of Medicare's most fundamental achievements.

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Research Service

INCOME NEEDED FOR EQUIVALENT LEVELS OF LIVING
FOR FARM AND URBAN FAMILIES

A Preliminary Report

Talk by Carol M. Jaeger^{1/}
Consumer and Food Economics Research Division
at the 45th Annual Agricultural Outlook Conference
Washington, D.C., 11:30 A.M., Wednesday, November 15, 1967

As a result of society's concern for those who are not sharing in its affluence, considerable attention has been given, in recent years, to determining the line between poverty and the possession of resources sufficient to provide a minimum adequate level of living. Two steps are involved: (1) Determining the general level that constitutes poverty, and (2) drawing the poverty line so as to take into account the differences in needs of large and small families, families on farms, in the small towns and in the cities, families on the East Coast, the West Coast, and the areas between. The knowledge of the numbers and kinds of families in poverty resulting from the second step is needed if we are to devise programs that will attack the roots of poverty, mount them where they are needed, and fund them adequately.

The present concept of what constitutes poverty began to take form in 1964 when the Council of Economic Advisors recommended \$3,000 as the poverty point for a family and \$1,500 for an individual. The Council and many others recognized that poverty could not be defined equitably by a single figure or even two. The demarcation must take into account the differing needs of families. The Council, however, did not attempt to indicate a pattern of variation around its two poverty points. About a year later Mollie Orshansky, on the staff of the Social Security Administration, Dept. of Health, Education, and Welfare, developed a scale centering around \$3,000 that is now generally accepted as the poverty line.

This scale is based on Engel's finding that "The proportion of outgo used for food, other things being equal, is the best measure of the material standard of living of a population." The HEW scale has two levels, one for nonfarm, the other for farm families.

^{1/} This research was planned and executed by Jean L. Pennock, Carol M. Jaeger, and J. Patrick Madden. Dr. Madden became a collaborator while on the staff of the National Advisory Commission on Rural Poverty. He is now associate professor of agricultural economics at Pennsylvania State University.

As the first step in developing the nonfarm component of the scale, 62 classes of families were determined on the basis of their size and composition. The cost of a specified level of food consumption was computed for each class. Then an estimate of the total amount of income required per family was obtained by multiplying the food costs by a constant factor.^{2/} The scale is the relation between these estimates of required income for the 62 classes.

The food costs are based on the USDA's food plans.^{3/} These plans, at four cost levels, suggest the quantities of 11 groups of foods that together provide a nutritionally adequate diet for individuals of specified sex and age. The plans are priced periodically. The costs for individuals can be summed, with appropriate adjustments related to family size, to provide costs for the family. The economy food plan, the least costly of the four plans, is the basis for the more generally used HEW scale.^{4/} The factor used to reach income is 3. This multiplier is derived from the average relation of food expenditures to income found in the 1955 Household Food Consumption Survey data for families of two or more persons.

The farm component of the scale is determined in the same way as the nonfarm with one exception. The average value of food that farm families produce for their own use is subtracted from the allowance for food costs. Because the subtraction is made before food costs are multiplied by the factor 3 to reach income, the estimate of income required by farm families is reduced in direct proportion to the reduction in the estimate of money needed to purchase food. When the HEW scale was first calculated, farm families were producing about 40 percent of their own food. The estimate of income required by them was consequently 40 percent less than the needs of comparable nonfarm families. More recent estimates put the proportion of their food farm families produce at about 30 percent.^{5/} The farm-nonfarm differential in current use is therefore also 30 percent.

In moving from a single point delineating poverty to a wide range of points that take into account differences in need related to family size and composition, the HEW scale deserves recognition as a pioneer effort furnishing a useful tool in program planning and research. But further refinement of the methodology is desirable. One question that needs to be explored is whether there can be a constant relationship between food and income that holds over the wide range of family types and sizes. Because it is generally recognized

^{2/} Orshansky, M., "Counting the Poor: Another Look at the Poverty Profile." Social Security Bulletin, Jan. 1965, pp. 3-29. See particularly pp. 5-10.

^{3/} "Family Food Plans, Revised 1964," FAMILY ECONOMICS REVIEW, October 1964.

^{4/} A second scale was also developed, based on the low-cost food plan, which costs approximately 30 percent more than the economy plan.

^{5/} Consumer Expenditures and Income, Rural Farm Population, United States, 1961, USDA Consumer Expenditure Survey Report No. 35, 1966. Also, Money Value of Food Used by Households in the United States, Spring 1965. Food Consumption Survey Preliminary Rpt. CFE 300. 1966.

that the needs of farm and urban families are different, we would not expect the cost of meeting these needs in the two groups to fall into the same relationship between food and nonfood items. And if under circumstances in which needs for goods and services are the same, but the levels of prices over the range of goods and services are not the same, must not the proportion of income used for food vary?

But of even more concern to us in Agriculture is the way the farm-nonfarm differential is computed. A differential that discriminates against the farm population can result in fewer antipoverty programs in rural areas and less effort to help farm families adjust to reduced employment opportunities. Within Agriculture the effects of a differential that discriminates against the farm population may also be felt beyond the poverty level; it can influence decisions concerning Parity and the whole problem of the relation of farm and urban income.

We believe that the differential as currently computed is discriminatory. Let us consider it more closely. To have any validity, Engel's dictum on the relation of food costs to income must be applied in terms of real costs and real income--i.e., costs and income that include both money and nonmoney components. Nonmoney consumption cannot be taken into account while nonmoney income is ignored.

If then a fixed relationship between food costs and income applicable to farm and nonfarm families is assumed (in this case, that income is three times food costs), and if food prices are assumed to be the same for farm and nonfarm families, then the real income needed by both groups is the same. To put the estimates in terms of money income, it is only necessary to subtract from the real income the nonmoney component, home-produced food. Accepting the HEW premises, we find that when farm families produce 30 percent of their food they need 90 percent as much money income as nonfarm families rather than the 70 percent assigned them.

In justifying a cut in the nonfood areas that is proportionate to the cut accounted for by home-produced food, Miss Orshansky points out that both farm and nonfarm families were allocating one-third of their incomes to food in the survey data she worked with. But this allocation is in terms of money income and money expenditure. If we add home-produced food to both food expenditures and income for farm families, we very substantially increase the proportion allocated to food by them. This, in terms of Engel's law, is an indication that farm families, on the average, have a lower level of living than nonfarm families, a situation we all know to exist. Allowing farm families only their current low rate of expenditures on nonfood needs in effect penalizes them because they are the poorer group and continues them in that position.

How do we propose to correct this situation? We believe that there is a more equitable approach to this problem. Also in the data from the 1960-61 Survey of Consumer Expenditures we have a body of pertinent information not

available to Miss Orshansky when she developed her method. We are not yet far enough along in our investigations to set forth what the correct relationships are, but we believe that we have reason to challenge some of the relationships in the HEW scale. Let me first outline our approach and then discuss our findings.

Because there are more objective standards of need for food than for the other areas of living, we, too, have used food as the point of entry into determining the levels at which families are equally well- or poorly-off. But in place of assuming a constant relationship between food and nonfood needs, we have tried to extract a relationship from the 1960-61 data. We have assumed that families whose food expenditures are at the same level, as measured against the USDA food plans, are at equivalent levels of living. In determining the level of food expenditure, we have included only 40 percent of the value of home-produced food. We have done this because analysis of the effects of home production on food consumption indicates that 40 percent of home production substitutes for expenditure while the remaining 60 percent increases the total level of food consumption above that of nonproducing families.^{6/}

We want our measurement of needs to reflect the family's usual level of living and to be influenced by "good" and "bad" years only as they average out for the individual family over a period of years or in any one year for a group of families alike in their normal income position. Therefore we have used a two-step approach in determining costs for the array of goods and services families use. We have first determined the association between a specified level of food consumption and those classes of outlays known to have little year-to-year variability. In this stable core are food, housing, clothing, personal care, automobile operation and other transportation, recreation, reading and education, personal insurance, and gifts and contributions. In the second step, we have determined the average outlays in the remaining, more variable categories that are associated with the levels just determined for the stable core. In this second group we have included medical care, automobile purchase, personal taxes, and savings.

In determining both sets of components--the more stable and the more variable--tenure of the family dwelling and age of the family head are taken into account as well as family type and size, region, and urbanization.^{7/}

Our resulting estimates of needs are in terms of the money income needed for the average money outlays of families at the specified levels of food consumption. These money outlays are in turn determined in part by such nonmoney resources as home-produced food and owned homes.

^{6/} See "Home Production and the Family's Food," FAMILY ECONOMICS REVIEW--September 1966.

^{7/} The method is described more precisely in an appendix to the forthcoming report of the National Advisory Commission on Rural Poverty.

This approach appears to be reasonably successful in differentiating patterns at successive levels of consumption. We had assumed that these levels would be levels of normal or long-term income as well, but this turns out not to be the case. We find that the rate of savings tends to decrease with an increase in level of required income. We attribute this to the fact that at low levels of consumption there tends to be a grouping of two kinds of families--those that can afford no more and those that could live better but chose this level in order to make higher than normal savings. Conversely, at higher levels there are those families for whom this is a normal position, a decreasing proportion of the high savers noted at the lowest level, and a new group, those who are living beyond the level of others in like circumstances and who are consequently low savers.

Now let us look at some of our tentative findings. On the HEW scale a farm family needs only 70 percent as much income as a nonfarm family. We believe the ratio should be at least 80 percent. (Table 1.)

The HEW scale recognizes no differences in the needs of families of the same type and size except for the farm-nonfarm differential. We find that tenure makes a difference. Among farm families, owners require less income than renters. (Table 2.) One factor contributing to this difference is the heavy concentration of home-production among owners. Because they produce a larger part of their own food, they have smaller cash outlays for food than do renters.

Our findings are most tentative as to the food-income relationship over the range of family size and type. We must make a correction in our procedures before we can generalize these relationships, but we see a tendency for nonfood needs to increase less rapidly than food needs with an increase in family size.

As I indicated before, this is in the nature of an interim report. We plan to continue our investigations and will report to you again. Our findings should be useful to you as you work with rural families and counsel with them as to their plans. Many farm families today must decide whether to stay on the farm or give up farming and find another means of livelihood. At present these families are in a better position to estimate their probable income in a town or city than to determine how the level of living that that income will provide compares to the level of living they have on the farm. Until they know not only what they can earn but how they can live, they cannot decide wisely.

Table 1. Income required by farm and urban families^{1/} to maintain equivalent levels of living and ratio of farm to urban requirements, 3 levels^{2/}, 2 regions

Region	Economy			Low-cost			Moderate-cost		
	Farm	Urban	Ratio	Farm	Urban	Ratio	Farm	Urban	Ratio
North Central	2,805	3,469	81	4,391	5,565	79	6,683	8,256	81
South	2,040	2,389	85	3,179	3,842	83	5,814	7,222	81

^{1/} Estimate based on 4 family types: husband and wife only and 3 types consisting of husband and wife and own children only, differentiated on age of oldest child: under 6 years, 6-17 years, and 18 years and older. Family size limited to 6 in families with young children only, and to 7 in other 2 types. Family types weighted together in the proportions in which they occur in the total U.S. population.

^{2/} Levels of food expenditure related to the USDA food plans.
Source: 1960-61 Survey of Consumer Expenditures.

Table 2.--Income required to maintain equivalent levels of living by farm and urban families of selected type and size and ratio of farm to urban requirement, by tenure, 3 levels,^{1/} 2 regions

Husband-and-wife families with 1 or 2 children, oldest child 6-17 years

Family size, region, and tenure	Economy		Low-cost		Moderate-cost		Ratio of Farm to Urban required income	
	Rural farm		Urban		Urban		Economy	
	dol.	dol.	dol.	dol.	dol.	dol.	pct.	pct.
Family size 3								
North Central								
Owners ----	3,962	2,507	5,817	4,088	8,735	6,477	63	70
Renters ---	3,589	2,952	5,438	4,619	8,394	7,219	82	85
South								
Owners ----	2,135	1,973	3,629	3,162	7,364	6,107	92	87
Renters ---	2,384	2,249	3,891	3,467	7,711	6,491	94	89
Family size 4								
North Central								
Owners ----	4,760	3,325	6,841	5,117	10,107	7,844	70	75
Renters ---	4,404	3,724	6,451	5,609	9,756	8,598	85	87
South								
Owners ----	3,214	2,899	4,749	4,077	8,644	7,015	90	86
Renters ---	3,382	3,093	4,978	4,298	8,958	7,308	91	86

^{1/} Levels of food expenditure measured by the USDA food plans.
Source: 1960-61 Survey of Consumer Expenditures.

Table 3.--Relative change in cost of food and nonfood needs with change in family size at level of economy food plan, selected family types, farm and urban, 2 regions

/4-person family in each type and in each region-urbanization = 100/

Family type and size class	Farm				Urban			
	North Central		South		North Central		South	
	Food plan	Nonfood needs	Food plan	Nonfood needs	Food plan	Nonfood needs	Food plan	Nonfood needs
Husband and wife, oldest child under 6 years								
4 persons -----	100	100	100	100	100	100	100	100
5 persons -----	114	102	115	112	114	95	115	109
6 persons -----	126	103	127	123	126	91	127	110
Husband and wife, oldest child 6-17 years								
4 persons -----	100	100	100	100	100	100	100	100
5 persons -----	115	112	116	109	115	106	116	117
6 persons -----	129	120	131	117	130	103	131	123
7 persons -----	150	138	152	127	150	113	152	140
Husband and wife, oldest child 18 years and over								
4 persons -----	100	100	100	100	100	100	100	100
5 persons -----	121	122	122	125	121	120	122	131
6 persons -----	132	121	133	127	132	112	133	128
7 persons -----	159	147	161	151	159	133	161	157

Source: 1960-61 Survey of Consumer Expenditures.

UNITED STATES DEPARTMENT OF AGRICULTURE

CONTINUING CONSUMER PROTECTION AT FDA

Talk by Kate Stahl
Coordinator of Consumer Services, Food and Drug Administration
at the 45th Annual Agricultural Outlook Conference
Washington, D.C., 1:30 P.M., Wednesday, November 15, 1967

We in the Food and Drug Administration are pleased to share in your 45th Agricultural Outlook Conference.

During this particular session, recent legislation and ongoing programs in consumer protection will be discussed. If you are interested in the "outlook" for more consumer protection legislation, you need only look for offending practices in your environment. When public sentiment mounts against a particular practice--and if the offenders do not do their own housecleaning--there is a good prospect that restraining laws will be enacted. For example, consider some of the measures to protect the consumer which the President has recommended--truth-in-lending and pre-marketing clearance of certain medical devices. Agencies such as FDA come into being because society knows how to protect its interests.

As for recent legislation and FDA: the 89th Congress in 1966 gave us new regulatory responsibilities for foods, drugs, devices, and cosmetics under the Fair Packaging and Labeling Act. The same Congress expanded our authority over household chemicals and other products which may endanger children by enacting the Child Protection Act of 1966. We have also just completed the first year of work resulting from the 1965 Drug Abuse Control Amendments to the Federal Food, Drug, and Cosmetic Act. These amendments give us added responsibility to control the misuse of such drugs as stimulants, depressants, and hallucinogens.

Many provisions of the Fair Packaging and Labeling Act, as assigned to FDA, parallel provisions of the Food, Drug, and Cosmetic Act. The laws are complementary and not contradictory. Thus we realized that regulations for the enforcement of each Act must not be contradictory either. We felt that an integrated body of regulations for packaging and labeling under both laws would be the surest way of avoiding contradiction, and would provide industry with the clearest guide to compliance. Because penalties for violating the Food, Drug, and Cosmetic Act may be more severe than those imposed under Fair Packaging, we spelled out which regulations were issued under the packaging act alone.

Labeling for a drug product, of course, must have different kinds of information than that for a cosmetic. Packaging practices are quite different too--compare a lipstick with a bottle of aspirin. So FDA has been writing separate regulations for each class of commodities--for foods, for cosmetics, and for over-the-counter drugs and devices.

We think the final regulations for food packaging and labeling, and those now proposed for cosmetics, drugs and devices make no unreasonable demands on industry, but at the same time are responsive to consumer needs. Assessment of their worth may have to wait until July 1968 when all food packages must comply with the regulations unless granted specific extensions.

The new food labeling regulations add to the definitions of terms appearing in the Food, Drug, and Cosmetic Act. For example, "label" means any display of written, printed, or graphic matter on the immediate container of any consumer commodity, affixed to any consumer commodity, or affixed to any package containing a consumer commodity.

We have now defined "package" to mean any container or wrapping in which a consumer commodity is enclosed for delivery to retail purchasers. Transparent wrappers which do not obscure the required label information appearing on an inner wrapper, and certain shipping or display containers, are excluded from this definition.

I think an important new definition is that of "principal display panel." The principal display panel of a food package means that part of a label that is most likely to be shown or examined under customary conditions of display for retail sale. The area of the principal display panel is also defined:

1. For rectangular packages, the area of the principal display panel is the product of the height times the width of the side most likely to be displayed.
2. For cylindrical or nearly cylindrical packages, the area is 40 percent of the product of the height times the circumference.
3. For packages of other shapes, the area is 40 percent of the total surface. However, when such containers present an obvious principal display panel, as does the top of a triangular or circular package of cheese, the area of the principal display panel is the entire top surface.

The law requires that the net quantity of contents must be separately and accurately stated at a uniform location on the principal display panel. Our regulations define the uniform location as the lower 30 percent of the principal display panel. The contents statement must be in boldface type in lines generally parallel to the base of the package; in a type size determined by the area of the principal display panel; and in distinct contrast to its background and separated from any other printed label information. So that the contents declaration will be of uniform size for packages of substantially the same size, regulations were established for five minimum type sizes.

For packages 5 square inches or less-----	1/16 inch in height
Over 5 square inches but less than 25 -----	1/8 inch in height
Over 25 square inches but less than 100 -----	3/16 inch in height
Over 100 square inches but less than 400 -----	1/4 inch in height
Over 400 square inches -----	1/2 inch in height

The quantity statement is expressed in terms of fluid measure if the food is a liquid; in terms of dry weight if solid, or a mixture of solid and liquid.

The net contents declaration must also be an accurate statement of the quantity of food contained in the package. For example, it should not include the weight of any packaging material. However, the amount of propellant in a food designed for use under pressure...instant whipped cream...may be included in the net contents. The regulations also spell out the appropriate temperatures at which frozen foods, refrigerated foods, and other foods are to be measured. Ice cream would be weighed at a frozen temperature; frozen vegetables or fruits at their thawed temperature.

Another new departure will be the dual declaration. For packages containing 1 pound, but less than 4 pounds, the net contents must be declared in total ounces followed by a separate declaration in parenthesis of pounds and ounces or pounds and common or decimal fractions of a pound. For example:

Net weight 24 ounces (1 lb. 8 oz.) or
Net weight 24 ounces (1 1/2 or 1.5 lbs.)

Packages which contain liquid contents of 1 pint but less than 1 gallon shall also carry a dual declaration. For example:

Net contents 56 fl. oz. (1 qt. 1 1/2 pts.) or
Net contents 56 fl. oz. (1 qt. 1 pt. 8 fl. oz.)

Exaggerated terms such as "full gallon," "jumbo pound," and "giant quart" are prohibited.

The law states that any label which says anything about servings must also say how much is in each serving. Our regulations define that the quantity of each serving must be shown in the same size type in immediate conjunction with the serving statement. For example:

2 servings 2 oz. each

Identity of the product is also important. The common or usual name of the product (green beans, let's say, or chili con carne) must appear as a principal feature on the principal display panel and generally parallel to the base of the panel. If the product could be offered in more than one form--for example, sliced or whole--the particular form of the product must be part of the identity statement. It may be stated or shown by illustration, or it may be visible through the package.

The ingredients are to be listed on any single panel of the label in decreasing order of predominance by their usual or common name. When a particular expensive ingredient is significant to the consumer making value comparisons, a statement of the proportion of that ingredient may be required to avoid misleading the consumer.

The name and address of the manufacturer, packer, or distributor must be given. The regulations call for the actual corporate name although a subsidiary or division of the corporation may also be listed. We have been told about problems in test marketing and product identification that this provision may create, but we believe only the actual corporate name best meets the requirements of the law.

It was at FDA's discretion, however, and with a cooperative gesture to our fellow workers in the Post Office Department, that the ZIP code became a required part of the address. We try to assist other government agencies, but not without regard to possible increased costs to industry or the consumer, or a possible disruption of the orderly flow of goods into the marketplace. So, while the ZIP code ultimately will be included in every address, for now, if a label meets all the other regulations, the ZIP code need not be added until the label is redesigned and new plates must be ordered.

The law does not prohibit valid cents off on economy size packages, but does require that such practices represent real value to the consumer. Authority to issue regulations to preclude abuses in these areas is included in the Act.

Let's summarize some of the more important features of the required labeling for food products.

1. Identity of product

- By common or usual name
- Must appear on principal display panel
- Form of product (whole, sliced, etc.)

2. Name, address, and zip code of manufacturer, packer, or distributor

3. Contents Statement

- Lower 30 percent of principal display panel
- Easily read
- Boldface type
- Same size type for packages of the same size

4. If number of servings stated, quantity of each serving must be shown in the same size type in immediate conjunction with the serving statement

5. Ingredients

Should be listed in decreasing predominance by usual or common name

Optional ingredients in standardized foods must be listed

If necessary for value comparison, the proportion of the ingredients may be required

At this time FDA's regulation-writers are reviewing the comments of the drug, device, and cosmetic industries on our proposed regulations for them. We already require quite a lot of labeling information for drugs and devices, as the label on a bottle of aspirin shows. The final regulations for the packaging and labeling of over-the-counter drugs and devices will take into consideration the existing regulations and the special responsibilities of these industries.

Our proposal for the packaging and labeling of cosmetics was made too with consideration of that industry's unique practices. We know that many cosmetics are sold in small and decorative packages which may influence the sale as much as the contents. We think our final regulations will make adequate provisions for the unusual cosmetic packages and provide, at the same time, the useful information a consumer needs to make value judgments.

The Fair Packaging and Labeling Act does not include or cover labeling of meat, poultry, tobacco products, products under the Federal Insecticide, Fungicide, and Rodenticide Act, prescription and insulin-containing drugs, alcoholic beverages, or products subject to the Federal Seed Act.

Let's go on to another area of consumer protection under FDA as a result of recent legislation. The Drug Abuse Control Amendments of the Food, Drug, and Cosmetic Act were passed in 1965 and became effective as of February 1966. They were the result of national concern over the widespread abuse of three groups of dangerous drugs--depressants, stimulants, and hallucinogens.

While FDA has 17 District Offices and 1 national drug testing center, our Bureau of Drug Abuse Control was organized with 9 field offices. To carry out the provision of the law, some 300 trained agents are now empowered to seize illegal supplies of the controlled drugs, serve warrants and arrest persons engaged in the illegal manufacture or distribution of dangerous drugs. These agents have the right to carry firearms while engaged in their duties.

The law requires all legal handlers of drugs designated as dangerous to keep records of their supplies and sales. No prescription for the controlled drugs older than six months can be refilled. Nor can refills be made more than five times without a new prescription from a doctor.

The law carries criminal sanctions against those engaged in illegal drug traffic. It does not provide criminal penalties for the user. It has a two-sided approach--enforcement and education.

The Child Protection Act of 1966 amended a 1960 statute known as the Federal Hazardous Substances Labeling Act. The emphasis of that earlier piece of legislation was on labeling. The new hazardous substances law includes--but is not restricted to--labeling.

There are hundreds of thousands of household-sized products of potentially dangerous substances covered by the law. These include such labor-saving aids as cleaning agents, rust and stain removers, certain laundry supplies, drain cleaners, waxes, polishes, strong ammonia, bleaches, and paint thinners. Other substances that come under the law include many do-it-yourself home repair or hobby kits and such products as lime, adhesives of one kind or another, paint, chemicals for the photo laboratory, soldering agents, certain automotive fluids, antifreezes, and fuels for motor boats and motor bikes and similar vehicles.

Household-size containers of these substances must carry a conspicuous label to warn the user of the potential danger and to provide necessary safety information.

If a product is highly toxic, corrosive, or extremely flammable, the word "DANGER" must appear on the label. Substances so toxic that a small amount would cause death must have both DANGER and POISON conspicuously printed on the label. In some instances the skull and crossbones symbol (inherited from our Caustic Poison Act of 1926) is also required. All other products covered by the Federal Hazardous Substances Act have to display the word WARNING or CAUTION. The hazard has to be described. For example, FLAMMABLE, VAPOR HARMFUL, CAN BE ABSORBED THROUGH THE SKIN, CAUSES BURNS. The label must also list the hazardous substance or ingredients of the product for the consumer or physician in case of injury. The label must also tell what to do or not to do in case of injury. There must be directions for use of the product. The label must also include first aid directions, and if necessary, the phrase, CALL A PHYSICIAN IMMEDIATELY.

Finally, there must be the warning, KEEP OUT OF THE REACH OF CHILDREN, or an equivalent statement. The name of the manufacturer, packer, or distributor is very important if necessary to obtain antidote information in case of emergency.

It was not long after the 1960 Act that we discovered loopholes. Too many products were hazardous beyond the adequacy of label warnings. For example, in 1962 a product known as X-33 appeared on the market. It was sold as a water-proofing treatment for basement walls and other types of masonry around the home. As then manufactured, it had a flash point--the lowest temperature at which the fumes or vapors from the substance will ignite--of 40 degrees below zero F. Before removed from the market, three people had died and over 30 more were injured.

Clearly this kind of situation could not be tolerated. There were other instances of danger as well. For example, jequirity beans, so toxic that if one bean were chewed and swallowed it could cause death, were imported into this

country and sold on strings as jewelry. Certain kinds of fireworks or small explosives were also detected in the market place as being extremely hazardous to children. These fireworks were very small and round and looked like colored candy, gum drops or certain cereal products. In 1965 when the FDA warned parents and retail dealers to be on the lookout for them, the agency investigated over 30 cases where children suffered such injuries as loosened teeth, burns and cuts of the gums, tongue, and cheeks. A nationwide seizure campaign was required to round up the estimated 60 million "cracker balls" on the market.

In 1966 Congress enacted the Child Protection Act and thus amended the Federal Hazardous Substances Labeling Act by withdrawing the word "labeling." Obviously words on a label were not sufficient to protect the consumer.

We can now recall, ban, or seize items that are considered too hazardous for common use.

I would like to conclude these remarks on consumer protection by noting the complexity and interaction of the elements of our total environment.

That complexity involves the chemistry of air and water (note the interest in air and water pollution) and the chemistry of our food and drugs and household products. That complexity also involves our modern living in which open spaces between people are diminished and our emotional and psychological reactions are keener and quicker. No single consumer product can be evaluated in a total vacuum. Professionals in the fields of medicine, industrial technology, biochemistry, safety, government, and education all have a role to play. Nor can consumer protection be examined in bits and pieces. Essentially the problem is to gain some unity of concept. Consumer protection must be studied and aided within the context of our total modern environment. We have to know this environment; we have to face all of its positive and negative aspects, and see it whole. Interaction and interdependence are signal words to those of us interested in consumer protection today.

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UNITED STATES DEPARTMENT OF AGRICULTURE
Cooperative Extension Service

LIMBS AND HOW TO GO OUT ON THEM

Talk by Faith Prior
Extension Family Economist
University of Vermont

at the 45th Annual Agricultural Outlook Conference
Washington, D.C. 3:30 P.M., Wednesday, November 15, 1967

Over the years, I have learned a good deal from the woman who comes to our house every two weeks to clean. While it would be nice to be able to afford her services every week, she says she'd really rather come every two--that there's a lot more satisfaction in doing a job that really needs doing than in just going through the motions because you're being paid to.

Which is something that all of us recognize....the trick is to find the things that really need doing.

I suppose there are two kinds of Extension specialists--those who have grown up speaking the language of 4-H and Home Dem and USDA, and those johnny-come-latelys who spend their first year in Extension trying to find out the difference between a leader meeting and an agent meeting.

You can tell these new people by all the white space on their calendar.

It was about six months into my first calendar, while I was still trying to discover how to write an annual report on January 1 for a program year that began in July, that I was hit between the eyes by the straw-in-the-wind of consumer awareness.

I can tell you exactly where and when it happened. It was at the Grace Dodge Hotel here in Washington, at the 1963 conference of the Council on Consumer Information. I was completely bowled over by the fact that things were going on that I knew nothing about. Names that I had merely read in the newspaper were suddenly people doing important things on behalf of that unimportant little cartoon figure--UNO WHO.

Senator Kefauver, Representative Leonor Sullivan, Senators Newberger, Hart, and Douglas. Colston Warne, Richard Morse, Fr. Robert McEwen....so many more.

It's almost impossible to believe that any professional home economist could have lived such a sheltered life as to be only half-aware of the Federal

Trade Commission, the Food and Drug Administration, the Postal Frauds Division, Truth in Packaging, Truth in Lending, Flammable Fabrics, amendments to the Food, Drugs, and Cosmetics Act. All these were as exciting as though they had been blown into being that very week and spread out to dry for me alone.

All the way home--I used to be able to take the train home and get some thinking done but these days I fly now and think later--all the way home I kept thinking that nobody back home was talking about these things.

Weren't fraudulent practices going on in Vermont?

Weren't we taking for granted a good many protections that didn't really exist?

And now that we had come fully of age as a production economy, wasn't it logical that we had also become a consumer economy, with all the problems and protections that such a shift entailed?

I didn't, as I say, know very much about consumer education. In my college days, our preparation for teaching high school girls to be consumers was to learn how to shop for a pair of white anklesocks.

Nobody then was pointing out to us the role of the consumer in the economy, the philosophy behind the mass consumption society, the leisure society, the affluent society.

And for a very good reason.

We had not yet become an affluent society.

But things were different in 1963, and it appeared that the most useful thing I could do in my job was to bring myself, and the people for whom I had an educational responsibility, up to date in consumer awareness, and establish some mechanism for getting information out to the public.

Vermont is a small state; its largest city's population is only about 40 thousand. We will probably never have a Better Business Bureau. The attorney general's office at that time reported that they assumed no public responsibility for the consumer interest. It was, in fact, impossible to locate within the state any agency which felt a prime commitment to the consumer.

It seemed, then, that this was a vacuum which the Extension Service, coordinating with the University at large, might try to fill.

Four years ago it was not easy to sell to a traditionally production-oriented agency the idea of a consumer-oriented function. I know you understand very well the problems involved in assuming what then appeared to be a schizoid position. Demonstrated responsibility is the only tool I know that is effective against overgreat caution.

We were fortunate in receiving administrative support--if not one hundred percent sure that this was the right course to follow, at least willing to try the project on an experimental basis and chart the rest of the course from there.

The original proposal, which in October 1963 worked its way up through the offices of the Director, Dean, President, and Board of Trustees, and then down again to the level of implementation, was for the establishment of a Consumer Information Clearinghouse. The proposal listed the objectives of the Clearinghouse thus:

1. To publish two letters, a monthly newsletter for staff, and a bimonthly publication for the general public.
2. To serve as a clearinghouse for the referral of consumer problems to other agencies, or to suggest suitable lines of action in problem situations.
3. To sponsor and arrange a public statewide annual conference on consumer information.
4. To represent the consumer point of view to persons, groups, or agencies; to represent the production and marketing point of view to consumers.

We did build in a few safeguards.

We established a Clearinghouse advisory committee with representatives from medicine, commerce and economics, agriculture, the state Food Safety Committee, marketing, political science.

The Extension Director arranged that all copy for the newsletter, Dollars and Decisions, should be cleared by the University attorney before publication --an arrangement which has made it possible to go much further out on certain limbs than I would have gone strictly on my own cognizance.

Surprisingly we find, looking backward, that we have done each of the things we set out to do. Our staff newsletter is called "Consumer Confidential." Dollars and Decisions goes to a cleared mailing list of about 12 thousand bi-monthly. We have just held our fourth annual Consumer Day at the University. Last year two counties combined to hold a regional Consumer Day out in the state; a second pair of counties has joined them this year, and it appears that this trend will continue.

We have, also under the same Dollars and Decisions title, a weekly news column which goes to every paper in the state and to certain other publications, a weekly radio tape, and a monthly TV program; if time permitted we would go to a weekly show in TV, as the response warrants it. I have addressed, face to face, more than 12 thousand people-in-audiences, and the Clearinghouse has distributed over 255 thousand publications during the past four years, a somewhat larger figure than that of the adult population in the state.

In addition, we have answered literally thousands of questions relating to consumer problems. Some of them were questions of fact, or even opinion; some could be referred on to a specific agency. ("If you think the sacks of potatoes are short-weighted, get in touch with Mr. So-and-so, in Weights and Measures at the State Department of Agriculture." Or "I'm referring your inquiry on to the FTC.")

For some, there was no answer except "I'm sorry, there doesn't seem to be anything that can be done," or "Perhaps a private attorney could suggest something."

But being in charge of putting together conference programs makes it possible to work as a catalyst for bringing into contact points of view which are--or should be--synergistic.

For example, Vermont was among the states which had no compulsory meat inspection laws; the forum which Consumers Day afforded helped make it possible to move through the Legislature a bill remedying this situation.

It was at Consumer Day that the Governor of the State was afforded a first-hand hearing of the public voice speaking out on the lack of statutory protections in the consumer field: directly as a result of this exposure, the Consumer Information Clearinghouse was asked by Governor Hoff's office to draw up legislation which, on the basis of the consumer problems we had observed, would provide remedies suitable for this state.

With the approval and cooperation of the Director of Extension in Vermont, this new venture was undertaken, aligning consumer laws which had been enacted in other states with the problems observed in ours, and bringing the various elements within the framework of the Federal Trade Commission Act so that our efforts might be mutual and our jurisdictions complementary. Gale Gottschall, FTC's Assistant General Counsel for Federal-State Cooperation, was most helpful in providing materials and advice.

The bill, as finally drafted, was very broad in concept, making all "unfair methods of competition in commerce, and unfair or deceptive acts or practices in commerce" unlawful. The expressed intent was that in construing these unfair methods the courts of the state would be guided by the construction, by the courts of the United States, of similar terms in the Federal Trade Commission Act.

In addition to this very broad language, certain specific practices were cited, and remedies provided.

For example, the act provides for rescission of retail installment sales contracts, by certified mail, postmarked the first business day following the transaction, if a substantial portion of the goods or services had not been received; the buyer must have refunded such portion of the purchase price as he had paid, and any papers indicating an indebtedness must be returned.

The act also provided that the holder in due course of evidence of indebtedness in connection with a retail sales transaction should be "subject to all defenses of the buyer which would be available to the buyer in an action on a simple contract." This section was included as a protection to the buyers--most especially of home improvements--who found themselves complaining in vain to the contractor because the aluminum siding job had never been properly completed, only to be told that the contractor was no longer interested because the note had been sold to a bank in New Jersey. The bank in New Jersey, when contacted, would reply that they were in the money business, not in the siding business, and that the payment was due as scheduled. Under this law the bank would be responsible for all terms of the original contract.

Another section of the act made bait advertising unlawful.

Perhaps most importantly, the bill gave the attorney general the authority to restrain prohibited acts, designated the details of such prohibitions, outlined the extent of civil investigation authorized and penalties for falsification of evidence, indicated penalties for noncompliance with injunctions, and provided for cooperation with state's attorneys.

In addition, the Consumer Information Clearinghouse of the Extension Service at the University of Vermont was designated to "carry out a consumer education program designed to complement the investigative and enforcement duties of the attorney general provided for in this act." Specifically, according to the act, the Clearinghouse should "advise the people of the state, through the public media and other methods, of fraudulent and deceptive business practices, and provide an educational service in matters affecting their rights as consumers." The Clearinghouse should "refer consumer problems to the office of the attorney general of this state, and cooperate with consumer welfare bodies of agencies, both state and federal governments and of the business communities, where such exist."

The two bills, numbered H-1 and H-2, were first on the desks of legislators when the General Assembly convened in January, 1967.

Now began a very interesting period.

As each of us knows all too well, it is not easy to muster people to make their opinions--pro or con--known about legislation in any except a few limited areas. (In Vermont one of these areas is deer hunting: schedule a hearing on anything bearing on hunting regulations or management of the deer population and the chambers overflow with those willing and anxious to speak. But to the general public, other matters are largely ho-hum.)

Yet legislators told me that only one other piece of legislation (open housing) in the 1967 session engendered as many constituent contacts as did the Consumer Protection Act.

This came about in two ways. First, all of the media were used to make the public aware of (1) the intent and content of the bills, and (2) the kinds of practices the law was intended to correct. This was done in terms of real cases, real places. The old news-writing techniques of who, what, where, when, and how were emphasized. We didn't talk in general terms about the evils of not having defenses against the holder in due course; we talked about the elderly widow in Rutland who had paid \$1,400 for an uncompleted roofing job and now was told by a finance company that they couldn't care less, all they were interested in was receiving the payments on time. There's a lot of difference, because the reader, or the viewer, or the listener can identify with the elderly widow while the "holder in due course" is just legalese.

We not only presented real cases as effectively as possible, we also presented the bills themselves--what each section said, and what it meant. We were careful to say "this legislation could be important to you and your family--form your own opinion about it and make your opinion known to your legislator." And the public did just that.

Second, I appeared many times, before legislative committees and before the committee of the whole, on the invitation of the chairmen or of commissioners whose departments would be involved directly in administering legislation. Such invitations are issued to one as an expert witness, rather than as a proponent of legislation, even though the net result of testimony may make it entirely evident where support lies. I was asked about the kinds of complaints that had been coming to the Clearinghouse, how they were handled in view of the resources available in the state, whether and how I thought the legislation under consideration might solve some of the problems. Such testimony was fully reported in press, radio, and TV, which of course increased its coverage.

I think you will be amused at one episode. It was at an open hearing of the House committee considering a state Truth in Lending bill, before which I was appearing at the request of the Commissioner of Banking and Insurance. One of the minor sections of the bill provided for a "cooling off period," an opportunity to cancel a retail sales installment contract during the next business day.

I had given my very brief statement relative to the desirability of full disclosure of true annual interest rates, with no mention of the contract cancellation section, when an attorney from Massachusetts, representing an association of door-to-door sellers, asked to be recognized. He made a very effective plea on behalf of these sellers, claiming that a law allowing contract cancellation would take the bread from their children's mouths, and that no charge of high pressure could be levied against that kind of selling as it was practiced in the state of Vermont. There wasn't a dry eye in the House.

I asked to be recognized again, and said I would like to tell them, briefly, about a sale made just the previous evening at something after midnight, on

the salesman's fourth callback, to two young school teachers. He sold them a contract for more than \$1,000 for aluminum cookware. The sweetener thrown in --there's almost always a sweetener--in this case was champagne. Under Vermont law there was no recourse.

When the hearing closed, and I was leaving the statehouse, the attorney from Massachusetts caught up with me on the steps and shook hands. "Glad to meet you," he said. "And I'm sorry you were here." (He went back to Massachusetts in a premature glow of success to report that Truth in Lending would not get through both Vermont houses in 1967 and his association was therefore proof against contract cancellation--never realizing that the same provision was also part of the Consumer Protection bill which was to pass.)

As time began to run out on the 1967 session of the legislature, a heavy influx of bills caused a slowdown in passage of all legislation. The consumer bill had been affirmatively recommended out of Commerce committee, and passed by the House. Eventually it was recommended out of Senate committee to be discussed on the floor of the Senate.

A couple of days before the session was scheduled to end, a friend in Washington called to ask how the bill was faring and where the organized opposition lay. I had to tell him that the only apparent opposition lay with a lone senator who thought the penalties weren't severe enough, and if he would be quiet and let it come to a vote I thought it would pass.

Late on the afternoon of April 17--the last day of the session--the Fair Business Practices Act was passed unanimously, and immediately signed into law. Within 10 days the attorney general had proceeded against the first company to have charges brought under the new law.

On July 1, 1967, a Consumer Protection Office was opened under the direction of an enthusiastic young assistant attorney general. It is located, not at the state capitol in Montpelier, but in Burlington, which is not only the largest city in the state but also the home of the University and the Clearinghouse.

We have worked in the close coordination and cooperation specified under the new law. Many of our records--complaints, informal investigations, correspondence--have been transferred to the enforcement office, and provided a take-off point for their activities. Taking July's settled cases as a base, August's settled cases showed an increase of 236 percent, September's almost 300 percent. Our phone calls during that period have dropped about 75 percent.

There's a good deal less fancy footwork involved in bringing to the public information about laws which are already part of the statutes. Beginning in June, we have used all of the media to inform the public of the existence and the potential services of the new office. We are now developing a simple folder describing their--and our--functions. We introduced the director of the

Consumer Affairs Office on TV. A woman called me at 11 o'clock one evening recently to ask for the phone number of "that young man who was on TV" with me last June; her problem involved several thousand dollars and we were able to salvage the situation through rescission of contract.

Another section of the law--that relating to defenses against the holder in due course appears to be well ahead of its time, if one may judge by the complaints raised at a recent workshop on credit. Most states do not yet have this remedy, and apparently see little chance of achieving it at this time.

Appearances in the media have led to many many requests to speak to groups--social and professional, service clubs, business groups--about the Clearinghouse, the new law, and how they can be used by the public to best advantage. At some of these the attorney and I have made joint appearances, some we have parcelled out between us. People are interested.

We continue to use our Consumer Day programs, both state and county, to uncover consumer problems that may need official attention. During last month's forums a few such areas were shown to be: gaps in the meat inspection law, referral selling, speedometer rollbacks, telephone solicitation, classified directory listings, auto transmissions, backdating of contracts to avoid "next business day" cancellations. County agents, too, uncover problem areas, refer them to the state specialist at the Clearinghouse, and they are then passed on to Consumer Protection Office. Information is also channeled outward through the county offices: this fall the old furnace-repair racket is with us again, and all county agents have included warnings in their local radio and news columns, and in regular mailings.

Some complaints go, as they have since the inception of the Clearinghouse, to the Federal Trade Commission, either the district office in Boston or the Federal department in Washington. FTC attorneys have appeared at every Consumer Day program--there have now been four state meetings, and three in counties--and a two-way communication appears to be functioning effectively.

Similar relationships exist with the Food and Drug Administration, Post Office Department, Federal Housing, the President's Committee on the Consumer Interest, and Association of Better Business Bureau, also such state department as Banking and Insurance, Agriculture, Health, Welfare, Taxes, Recreation, as well as local Chambers of Commerce, Merchants' Bureau, Credit Bureaus, etc. The existence of working contacts does much to remove the defensive reaction which sometimes grows out of agency loyalties, and to dismiss the opprobrium of "consumerism."

The limbs onto which we have climbed have not, in retrospect, been so very far out--but the view, I must admit, has been much improved.

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Research Service

PROTECTING CONSUMERS THROUGH RESEARCH

Talk by Dr. Robert J. Anderson
Associate Administrator, Agricultural Research Service
at the 45th Annual Agricultural Outlook Conference
Washington, D. C., 1:30 P.M., Wednesday, November 15, 1967

I am very pleased to have an opportunity to talk to Extension specialists on the subject of consumer protection, and to explain some of the things that scientists in the Department of Agriculture are doing to safeguard the Nation's food supply. I know that you are genuinely concerned about consumer welfare; what's more, you are in a unique position to put research findings to work for the consumer.

The story of our progress in consumer protection is a story common to many scientific endeavors. We have come a long way. We have learned a great deal. But we find that the more we learn, the more we need to know.

Salmonella is a case in point. This troublesome organism has for years been recognized as a common cause of food poisoning. Historically, poultry products have been especially vulnerable to contamination. So we have devoted a great deal of effort to helping the poultry industry overcome the problem. We developed simplified laboratory tests for detecting salmonella. We devised methods for pasteurizing dried eggs, egg whites, and whole eggs. In 1966, we made pasteurization mandatory for all egg products moving in interstate commerce.

Poultry processors, for their part, have sought to reduce contamination by using filtered air in their plants and by minimizing exposure of products to plant workers.

These efforts have helped hold down salmonella contamination, but we are going to have to expand our attack. The problem is larger than we realized. Salmonella organisms are pervasive throughout nature; they are carried by man, animals, birds, even insects. It is extremely doubtful that we will ever be able to remove them from the environment entirely.

Our best bet, then probably lies in establishment of a salmonella-free pathway from farm to market to consumer. We will

have to find new and better ways of breaking the cycle by which salmonella organisms perpetuate themselves.

During studies conducted last year in cooperation with the feed industry, we confirmed that animal feeds often are contaminated with salmonella. Feeds containing animal byproducts are especially likely to be contaminated. You can see how this leads to a continuous cycle of infection. Animals carrying salmonella organisms in their intestines are sent to slaughter. The intestines and other unused parts, still carrying salmonella organisms, are sent to a rendering plant. Then they are added to feed and sold to the grower, who feeds them to other animals. If the rendered products are not completely free of salmonella, the disease chain is kept alive.

The Department is currently inspecting rendering plants in various States. Soon we will issue standards for feeds and feed ingredients, recommending sanitary procedures and requiring product testing for rendering and feed-processing plants. We hope that eventually all such establishments will qualify as producers of salmonella-free products.

Our Department and the Department of Health, Education, and Welfare have joined in asking the National Academy of Sciences-National Research Council to conduct a thorough study of all aspects of the salmonella situation. Researchers working on the study will try to determine the economic significance of salmonella, in terms of animal and human health; the principal carriers of salmonella; and new methods of preventing contamination.

As of now, careful inspection is one of the chief reasons that you seldom hear of a case of food poisoning. Poultry inspection for wholesomeness has increased rapidly over the past few years. Inspection of broiler carcasses, for example, rose by about 300 million in the period 1964-66. However, a comprehensive effort to reduce the incidence of salmonella in the environment would make inspection a less difficult job and would add a degree of improvement to our overall health standard.

Another animal health problem that is causing increasing concern is avian leukosis. Leukosis infections in the Nation's poultry flocks have been creeping steadily upward. In past months, our inspectors in the big poultry producing regions of the southeast have had to condemn more than 3 percent of the birds sent to market. Avian leukosis accounted for about one-fourth the total.

These condemnations represent a tremendous loss to poultrymen, but they are also of interest to protectors of human health. Avian leukosis is a form of cancer. It is not a form of

cancer that can be transmitted to man. Federal regulations require that birds infected with any kind of disease be kept off the market, and present condemnations are being made on that basis, not because of the nature of the disease.

What interests medical researchers about our studies of avian leukosis is that we have proved that it is caused by a virus. Our investigators at the Poultry Research Laboratory, East Lansing, Michigan, have spotted causative viruses under the electron microscope and have followed their progress from cell to cell in infected chickens. As you know, there is strong circumstantial evidence to support the theory that viruses also cause human cancer. Indeed, one of the most recent major efforts of cancer research has been to try to trace the different types of cancer tumors to specific viruses.

In our studies on avian leukosis, therefore, we hope not only to reduce losses to the poultry industry but also to supply some of the answers needed by scientists working on a cure for cancer.

Still another area of Department research that affects consumers is our work on mycotoxins. Mycotoxins are poisons produced by molds. No one paid a great deal of attention to them until 6 years ago, when a shipment of moldy peanut meal was fed to turkeys in England, and about 100,000 of the birds died. We now know that mycotoxins are poisonous if taken in large enough amounts, and that they cause cancer tumors if taken over a period of time even in small amounts.

Mycotoxins have been detected on many crops, but most frequently on peanuts. Because the peanut in various forms is a popular food item among humans, we have taken extra care to make sure that it is absolutely safe. USDA, the Food and Drug Administration, and the peanut industry have collaborated to develop methods for detecting toxic peanuts and diverting them from use as food or feed.

Further research efforts are being devoted to reclaiming any peanut products that might become contaminated, so that the food would not be wasted. In one experiment, for example, scientists added a harmless bacteria to a batch of purposely contaminated peanut butter. The bacteria detoxified the peanut butter without altering its taste. Similar results are being achieved with certain types of solvents that dissolve the toxic organisms. And other experiments are aimed at finding better methods of harvesting peanuts, so that the moisture content of the crop can be held down and molds can be kept from getting started in the first place.

So much for the pitfalls that nature prepares for us. Now I would like to mention a couple of manmade health hazards. One that we've all heard about is pesticides.

The immediate problems associated with pesticide use are now generally understood. But less is known about the long-term effects, if any, on the environment and people. We are now working to fill that gap in knowledge -- to substitute well-documented facts for speculation on the possible adverse effects from long-time use.

An English scientist, writing in a recent issue of the British Food Journal, ventured this opinion on pesticides:

"It is impossible to foresee the pressures that might develop for the use of available food supplies and it may become essential to deny the insect and rodent pests any fraction of the amount they now take."

"Higher levels of pesticides may well have to be accepted."

Whether or not this assessment of the food situation ever proves valid in our own country, there can be little question that pesticides are here to stay. Consequently, as guardians of consumer welfare, our goal must be nothing less than absolute protection from harmful pesticide contamination and total elimination of pesticide accidents.

One way we help ensure pesticide safety is through registration of pesticides. All pesticides sold across State lines must be registered with the Department. This regulation requires that manufacturers prove the safety and worth of a material before it is ever marketed.

USDA also oversees labeling of pesticide products. Recent improvements in the labeling regulations stipulate that warning and caution statements be prominently placed on the front panel of the labels, be printed in specified type sizes, and be written in language that is easy to understand. The amended regulations also require that labels bear the USDA registration number, so that the buyer can tell whether he's getting a federally regulated product. These revised labeling regulations became effective one year ago. Since then, all of the thousands of labels requiring USDA sanction have been reviewed.

The Department of Agriculture took the lead in coordinating Federal efforts through creation of what is now the Federal Committee on Pest Control. This committee reviews the pest-control plans of all Federal agencies, including our own cooperative programs, to

make sure the methods used are safe and effective.

One result of this cooperation is more complete reporting and investigation of accidents involving pesticides. The resulting pool of data helps identify weaknesses in research and educational programs.

Considerable progress has been made in reducing the need for persistent pesticides. We believe that their use should now be reviewed by disinterested scientists of the highest competence. At our request, the National Academy of Sciences-National Research Council has agreed to conduct such a review. We think the results will be extremely valuable.

Another environmental problem that will soon require action is the accumulation of animal wastes around large feedlots and dairy operations. Besides giving off offensive odors and causing stream pollution, these wastes may be reaching ground water supplies. The problem is partly economic, because large feeding operations are necessary to maintain our plentiful supply of meat. Department scientists are studying the extent of the problem and hope to find answers that will satisfy both the feedlot operator and his neighbors.

One of the oldest forms of consumer protection in this country is meat inspection. Recently, it has once again become the subject of lively discussion. The Federal Meat Inspection Act, as you know, was passed in 1906 following publication of Upton Sinclair's novel, "The Jungle," an account of working conditions in the Chicago packing houses. (This was the book that was aimed at the Nation's heart and struck it in the stomach, according to phrasemakers of the time.)

Federal meat inspection insures the wholesomeness of meat shipped in interstate commerce. This includes 85 percent of the meat consumed annually. The remaining 15 percent is processed and sold within State lines; it is not subject to Federal inspection. Many States have no inspection program of their own. Thus, standards of purity and cleanliness vary considerably from State to State and from one intrastate packing plant to another. USDA's 60 years of experience in meat inspection can be put to good use as the States move to standardize meatpacking procedures within their own borders.

You may have gathered from my earlier remarks that the Department of Agriculture frequently collaborates with other agencies of the Government on projects involving human health. These relationships have always been rather informal. Now, however, we have proposed that the Department of Agriculture,

the Department of the Interior, and the Department of Health, Education, and Welfare establish a Federal Committee on Food Safety, with joint responsibility for the wholesomeness of the Nation's food.

If this committee is approved, we hope that it will review and make recommendations on present problems, and anticipate future ones; that it will speed up exchange of information between the Departments, and encourage further exchange among international, Federal, and State agencies. The committee could well become a clearing house for such problems as bacterial contamination, chemical residues in foods, and environmental pollution affecting food and feed.

As we lay our plans for future research in consumer protection, we know that we can depend on the Extension specialist's traditional expertise as intermediary between science and the public.

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR RICE in 1967/68

Statement prepared by William R. Askew
Economic and Statistical Analysis Division
for the 45th Annual Agricultural Outlook Conference
Washington, D. C., Wednesday, November 15, 1967

The U.S. rice supply in 1967/68 will reach nearly 100 million cwt.--a new record high (all data are on a rough rice basis unless otherwise specified). The 1967 crop, based on indications in October, totaled 90.6 million cwt., and the August 1, 1967, carryover of 8.5 million cwt. was about the same as that of a year earlier. Privately held stocks have comprised almost the entire carryover in recent years. Imports in 1966/67 returned to a low level after rising sharply a year earlier. In 1967/68 they are likely to continue small (table 1).

Food use totaled 24.6 million cwt. in 1966/67, up from the 23.4 million of a year earlier to a new high. In 1967/68, food use is likely to remain at a high level. Food use includes shipments to the territories and Puerto Rico and use by the armed forces. Puerto Rico has always been a major consumer of rice. With a per capita consumption of around 130 pounds and a sizeable population, the bulk of the rice shipments are destined for Puerto Rico. Per capita consumption of milled rice in the 50 States was 7.2 pounds in 1966/67, about the same as a year earlier and a continuation of the uptrend of recent years (table 2). The increase in rice consumption is largely due to increased use in breakfast cereals. Use of rice in cereals approximated 1.3 million cwt. in the mid 1950's, but totaled nearly 2 million cwt. in the early 1960's.

Brewers' used 3.8 million cwt. of milled rice in 1966/67, the largest quantity since 1955/56. This use had been trending downward, reaching a low point of 2.8 million cwt. (milled basis) in 1963/64. But since then, brewery use has increased steadily. Much of the imported rice is broken rice and is destined for brewery use. Brewer's use of rice depends on the availability of broken rice, and the price of broken rice relative to that of corn grits. On some occasions, brewers' may take second heads and grind them for use in beer. Seed use will be tied to the size of the 1968 acreage allotment, but total domestic disappearance in 1967/68 is likely to be about the same as the 32.5 million cwt. of 1966/67.

The supply of rice available for export and carryover in 1967/68 is expected to be around 66 million cwt., nearly 10 percent more than last year. Of the 60.5 million cwt. available in 1966/67, 52.0 million was exported, with 8.5 million remaining in the carryover. Exports for dollars accounted for 30 million cwt., setting a new record. Japan continued as the largest dollar

buyer, but her 1966/67 takings were sharply below that of recent years. Dollar sales to a number of countries in Western Europe increased. Shipments under Public Law 480 (Food for Peace) totaled 22.0 million cwt., with the Republic of South Vietnam receiving the bulk of this.

World rice prices rose sharply in 1966/67, and towards the end of the year were sufficiently high to permit the United States to discontinue export payments. These payments averaged \$1.80 per cwt. of milled rice in fiscal year 1966, dropping to 87 cents per cwt. in fiscal year 1967. In contrast, the average export payment in fiscal year 1960 was \$2.73 per cwt.

In 1967/68, exports are likely to continue strong, and some further increase in dollar sales appears probable. The extent of any such increase depends largely on availability of rice from Thailand and Burma, both of whom declined in importance as exporters in 1967. At the present time, it appears that Thailand's crop may be somewhat below that of last year while Burma's crop may be about the same or a little larger. As a result of record production, Japanese imports may be substantially reduced from the level of recent years.

The size of the carryover on July 31, 1968, will be determined by the level of exports, but is not likely to be drastically different from that of recent years. The national average price support for the 1967 crop is \$4.55 per cwt., up 5 cents from the level of the 2 preceding years.

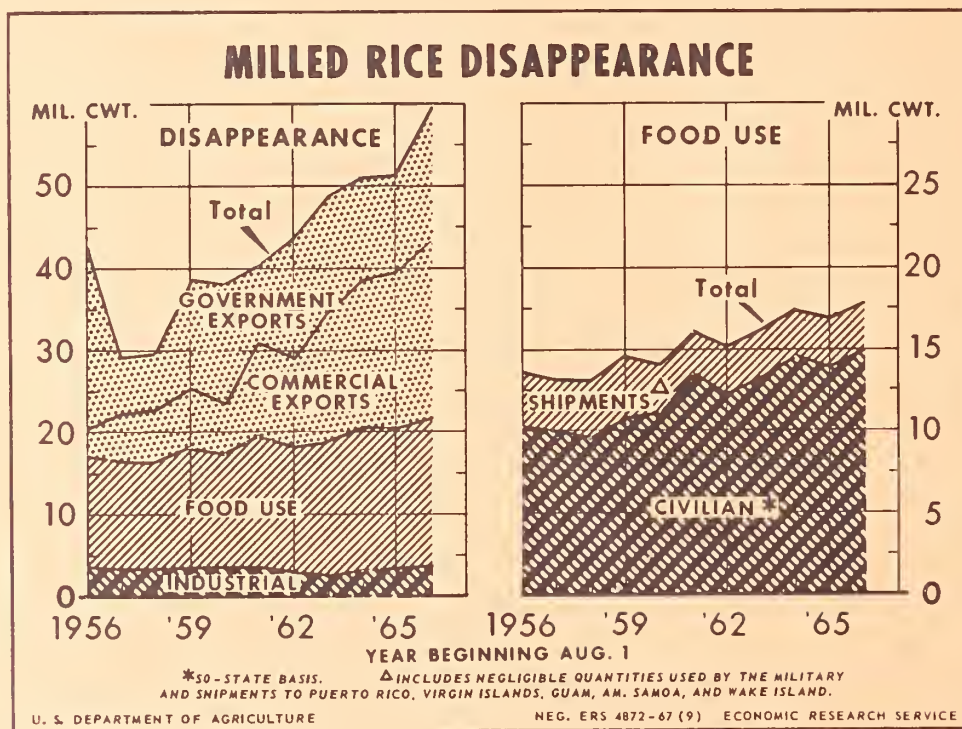


Table 1.--Rice, rough equivalent: Supply and distribution and prices,
United States, average 1959-63, annual 1963-67 1/

Item	Year beginning August					
	1959-63 average	1963	1964	1965	1966 <u>2/</u>	1967 <u>2/</u>
	Mil. cwt.	Mil. cwt.	Mil. cwt.	Mil. cwt.	Mil. cwt.	Mil. cwt.
<u>Supply</u>						
Carryover August 1	10.2	7.7	7.5	7.7	8.2	8.5
Production	59.8	70.3	73.2	76.3	85.1	90.6
Imports	.3	3/	.5	.7	3/	.1
Total supply	70.3	78.0	81.2	84.7	93.3	99.2
<u>Domestic disappearance</u>						
Food <u>4/</u>	21.4	22.5	24.3	23.5	24.6	
Seed	2.3	2.4	2.5	2.7	2.7	
Industry <u>5/</u>	4.5	3.8	4.3	4.7	5.2	
Total	28.2	28.7	31.1	30.9	32.5	
<u>Available for export and carryover</u>	42.1	49.3	50.1	53.8	60.8	
<u>Total exports</u>	33.0	41.8	42.5	43.3	52.0	
For dollars	(15.1)	(22.6)	(25.0)	(27.1)	(30.0)	
Total disappearance	61.2	70.5	73.6	74.2	84.5	
<u>Carryover July 31</u>	8.6	7.5	7.7	8.2	8.5	
Privately owned--"Free"	(5.7)	(6.1)	(6.6)	(7.6)	(8.3)	
Total distribution	69.8	78.0	81.3	82.4	93.0	
Difference unaccounted <u>6/</u>	+.5	---	-.1	+2.3	+.3	
	----- Dollars per cwt. -----					
<u>Price Support</u>						
National average loan rate:	4.59	4.71	4.71	4.50	4.50	4.55
<u>Price Received by farmers</u>						
Season average	4.87	5.01	4.90	4.93	N.A.	
<u>Farm price above support</u>	.28	.30	.19	.43	N.A.	

1/ Data apply to only major rice-producing States. Milled rice converted to rough basis at annual extraction rate. 2/ Preliminary. 3/ Less than 50,000 cwt. 4/ Includes shipments to U.S. territories and rice for military food use at home and abroad. 5/ Primarily for beer production. 6/ Results from loss, waste, the variance in conversion factors, the lack of data on other uses, and the different crop years for the two rice areas. N.A.--Not available.

Table 2.--Rice, milled: Supply and distribution, United States, 1956-66

Year begin- ning August	Supply			Distribution							Civilian consumption
	Begin- ning stocks 1/ :	Mill pro- duction:	Im- ports:	Total	Ending stocks 1/ :	Used by brew- eries:	Ex- ports	Ship- ments to Terri- tories:	Mili- tary takings: 2/ :	Total	Per capita 3/ :
	1,000 cwt.	1,000 cwt.	1,000 cwt.	1,000 cwt.	1,000 cwt.	1,000 cwt.	1,000 cwt.	1,000 cwt.	1,000 cwt.	1,000 cwt.	Pounds
1956	11,338	35,107	268	46,713	3,983	3,549	25,637	3,871	80	9,593	5.7
1957	3,983	30,523	164	34,670	5,343	3,348	12,754	3,960	135	9,130	5.4
1958	5,343	30,439	114	35,896	5,990	3,278	13,528	4,231	183	8,686	5.0
Beginning 50-State Basis											
1959	5,990	34,896	550	41,436	3,052	3,488	20,327	3,630	90	4/10,849	4/6.1
1960	3,052	36,928	203	40,183	1,943	3,482	20,643	2,835	127	11,153	6.2
1961	1,943	39,688	274	41,905	1,572	3,361	20,835	2,551	160	13,426	7.4
1962	1,572	43,276	27	44,875	1,478	2,911	25,190	2,970	117	12,209	6.6
1963	1,478	49,146	13	50,637	1,692	2,767	30,020	2,798	112	13,248	7.0
1964	1,602	51,041	338	53,071	1,995	3,095	30,489	2,820	154	14,518	7.6
1965	1,995	50,942	482	53,419	1,991	3,391	31,135	2,752	82	14,068	7.3
1966	1,991	58,381	6	60,378	1,684	3,819	37,721	3,000	100	14,054	7.2

1/ Stocks at mills, warehouses and ports in major rice-producing States, only. Do not include stocks held by distributors, packagers, food processors or brewers in any State.

2/ For military use at home and abroad.

3/ Derived by dividing total civilian consumption by estimates of population eating from civilian food supplies.

4/ Beginning with the 1959-60 year, shipments do not include quantities to the States of Hawaii and Alaska, thereby allowing these quantities to fall into domestic use for food. Population including these 2 States was used to compute per capita figures.

UNITED STATES DEPARTMENT OF AGRICULTURE
Consumer and Marketing Service

OUTLOOK FOR LIVESTOCK AND MEATS

Talk by Dr. R. K. Somers
Office of the Administrator
at the 45th Annual Agricultural Outlook Conference
Washington, D. C., 3:00 P.M., Wednesday, November 15, 1967

Meat Inspection Legislation

The present Meat Inspection Act is approximately 60 years old. It has served its purpose well during this time. However as new advances have been made in meat packing technology, it was found that new legislation was needed to plug a number of loop holes and to strengthen our authority in several aspects of the program. We believe that H.R. 12144, passed by the House on October 31, 1967, will serve this purpose.

This bill will stop the traffic in 4-D meat. It will broaden present legislation to authorize cooperative arrangements with State and local authorities through which the Federal Government could provide advisory and financial assistance for developing effective State meat inspection programs.

This bill will strengthen our controls over labels and brands used on meat products. It will provide for seizure and detention of meats involved in suspected violations of law. It will also provide enforcement tools not presently available for dealing with the distribution of unwholesome and adulterated meat products by unscrupulous persons.

Reorganization

The purpose of the reorganization of the meat inspection program on April 4, 1966, was essentially directed at developing a corp of loyal, disciplined employees, skilled in their duties and responsibilities, and performing their work in a successful manner. This organizational change was also aimed at strengthening communications within and outside the organization.

Our field organization has been restructured to bring supervision closer to the working level as well as it provides additional supervision. This has been accomplished. Laboratory facilities have been strengthened and expanded. New training stations in four locations have been

established for post-mortem inspectors and training facilities for processed meat inspectors has been expanded at the Meat Hygiene Training Center in Chicago, Illinois.

The country has been divided into seven districts with a management team in each district. This provides for direct contact and control over the inspection force. The supervisory force is better organized and under closer control of the managers in each district. The Washington office of the program consists of, in addition to the office of the Deputy Director for Consumer Protection, five staff divisions, namely, Livestock Slaughter Inspection, Processed Meat Inspection, Technical Services Division, Compliance and Evaluation Staff and the Administrative Staff.

Technical Services Capabilities

One aspect of the reorganization of the meat and poultry inspection programs that has great significance to the effectiveness and efficiency of these programs was the formation of the Technical Services Division. Units from both programs were joined in a manner that enables them to apply the same basic policies in a uniform manner to both programs.

The Technical Services Division is responsible for planning and administering programs to provide the meat and poultry inspection programs of Consumer and Marketing Service with the technical services required to assure that food products moving in foreign and domestic commerce are wholesome, unadulterated, and truthfully labeled.

At the time of the reorganization no unit existed for the purpose of conducting on-site reviews of foreign meat inspection systems and the foreign plants that export to the United States. Such a unit is now operating and performing services for the meat and poultry programs that are of great importance to the American consumer.

Greater emphasis has been given to the approval by this Division of equipment that is to be installed in the meat and poultry plants.

A Standards Group - consisting of professional food scientists - has been established. This Group has prime responsibilities for developing and appraising the policies related to the approval of the formulae, methods of preparation, containers and labels for meat and poultry products. The Meat and Poultry Labels and Packaging Groups have the actual responsibility for the use of such policies and standards in the approval of products.

The Laboratory Branch has been developed as a single coordinated unit. In the previous organization, biological and physical sciences were in different groups. Chemists, microbiologists and pathologists - all with

a background in meat and poultry product programs - are now organized in a manner that permits them to function effectively for solving the variety of complex laboratory and field problems that are presented to them. Each Group has been strengthened by appropriate organization and staff changes.

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR WHEAT in 1967/68

Talk by William R. Askew
Economic and Statistical Analysis Division
at the Annual Agricultural Outlook Conference
Washington, D. C., 10:50 A.M., Thursday, November 16, 1967

Total wheat supplies for 1967/68 are placed at 1,981 million bushels (based on indications in October), an increase of 133 million bushels from supplies of a year earlier. This is the first time since 1960/61 that the supply of wheat in the United States has increased from that of the previous year. The July 1, 1967, carryover of 426 million bushels was the smallest since 1952 but the decline was more than offset by the record crop of 1,554 million.

First Quarter Disappearance
Up Slightly

Total disappearance of wheat during July-September 1967, at 415 million bushels, was slightly larger than for the same period a year earlier. Exports, totaling an estimated 195 million bushels were down 16 percent from exports in July-September 1966. During that period of 1966, exports totaled 231 million bushels with dollar exports (including short term CCC credit) comprising half of the total. Dollar exports through September this year have been somewhat smaller, accounting for only 40 percent of the total. Barter exports this year are up sharply totaling an estimated 42 million bushels during July-September compared with 9 million in that period of 1966.

Use of wheat for food was little changed from a year earlier while seed use was off, reflecting the 13 percent reduction in the national acreage allotment for the 1968 crop. Feeding of wheat was greater during this past July-September than a year earlier, due to the narrower spread between wheat and feed grain prices. The approximately 45 million bushels fed to-date this year is about 30 million more than a year ago.

October 1 Stocks Larger

Stocks of wheat in all positions on October 1 totaled 1,565 million bushels, up 124 million from October 1966. The Commodity Credit Corporation owned only 116 million bushels this October 1 compared with 179 million on the same date in 1966.

Feed Use May Rise
in 1967/68

Total domestic disappearance may increase in 1967/68, primarily as a result of heavier use of wheat for feed. However, with the record corn and grain sorghum crops and probable lower prices for these grains, the rate of wheat feeding may decline from the high level of the first quarter. For the entire 1967/68 marketing year, feeding is estimated at 100 to 125 million bushels compared with 93 million last year.

Per Capita Flour Consumption
Continues Decline

The Bureau of the Census made downward revisions in their data on wheat ground and flour produced for calendar years 1962 to 1966, resulting in smaller domestic wheat food usage and a lower per capita disappearance of flour. The level of per capita flour disappearance was reduced by about 2 pounds so that the average for 1966 has been revised to 112 pounds. Prior to revision, per capita consumption showed signs of stabilizing. The revisions place the recent trend in per capita flour use at a 1 pound reduction per year. As a result, it appears that food use of wheat in 1967/68 may total 510 to 515 million bushels.

Total Domestic Disappearance
May Increase

Seed use of wheat in 1967/68 is likely to total 70 million bushels, somewhat below the 78 million of last year. This is likely to be more than offset by increases in food and feed use, resulting in a total domestic disappearance in 1967/68 of 680 to 700 million bushels. This would be about the same as or slightly higher than last year but somewhat below the record 731 million of 1965/66.

Export Availability Increases;
Competition Stiffens

Allowing 680 to 700 million bushels for domestic requirements for the entire 1967/68 marketing year, the quantity available for export and carry-over is above that of a year earlier. The Department's export target was announced last summer at 750 million bushels, fractionally larger than the 742 million of 1966/67. U.S. commercial exports are likely to be below last year's record level, while Food for Freedom exports may be larger than last year's reduced outgo.

Through October 30, exports of wheat and products, as well as forward registration for export payment, were behind last year's record level on that date. With large and better distributed crops around the world, competition for export markets is much greater this year than in 1966. While the 1966 world crop was a record 10.3 billion bushels, this was not apparent

until the late fall of 1966. Australia and Argentina were short of wheat during July-November 1966, but Australia harvested a record crop in December of that year. The Soviet Union harvested a record crop comprising about one-quarter of the world total and it is probable that much of their wheat went to replenish stocks depleted by several years of poor harvests.

Much of the current lull in world trade stems from reduced purchases by the Soviet Union, East European countries, and Mainland China. With a crop of around 2.3 billion bushels, the Soviet Union has only taken the minimum annual quantity of 75 million bushels established under their 3-year contract signed with Canada in 1966. This contract was negotiated in June of that year prior to the time the U.S.S.R. harvested their record 2.9 billion bushel crop. Canada still has long-term agreements with several East European countries but no sales have been made to-date. Mainland China has yet to take any wheat from Canada, although they have an agreement calling for a minimum of 168 million bushels and a maximum of 280 million to be taken over 3 years. In 1966/67, the first year of the agreement, Mainland China purchased nearly 95 million bushels from Canada.

Thus, a near-record 1967 world crop, along with a better distribution of the crop by country and reduced Communist purchases, has tended to slow down world trade and bring lower prices. The export price of U.S. No. 1 Hard Winter, ordinary protein, at the Gulf on October 26 was \$1.71 per bushel, including an export payment of 7 cents. A year earlier, the export price was \$1.79 per bushel, with a payment of 20 cents.

Canada Introduces Special Wheat Subsidy

In an unprecedented action, the Canadian Government announced on September 27 that it will pay subsidies on wheat sold by the Canadian Wheat Board below minimum price levels, which also were the levels agreed to in the International Grains Arrangement (IGA). The IGA minimum prices are not expected to become effective until July 1, 1968. However, the subsidies are to apply to all sales made from the beginning of the current Canadian marketing year (August 1, 1967).

Under the Canadian marketing system, the wheat farmers' total return is based on two payments: the initial or guaranteed payment and the final payment. For the current crop, the initial payment--basis instore Fort William/Port Arthur--is C\$1.70 (Canadian dollars) for Manitoba No. 1. For the past 5 years, the initial payment has been C\$1.50 for No. 1 Manitoba; payments for other grades were slightly less. Transportation costs, handling fees, and Wheat Board operating expenses are deducted from the payments. Typically, these charges run about 18 to 20 cents per bushel. The second and final payment is distributed to farmers well after the close of the marketing year. In January 1967, the Wheat Board distributed a final payment for the 1965/66 marketing year that averaged 48 cents per bushel. For Manitoba No. 1 the final payment that year was 50 cents and for No. 3

it was 46 cents, making the total payments for these two grades C\$2.00 and C\$1.88, respectively, at Fort William/Port Arthur. Deducting the charges listed above, and converting U.S. currency, provides a farm price ranging from U.S. \$1.57 to \$1.68. In contrast, a participant in the U.S. Wheat Program in 1965/66 received an average return of \$1.79 per bushel when marketing certificate payments were added to his return from the market.

Some Carryover Increase
Likely

With the currently indicated level of total disappearance in 1967/68, carryover stocks on June 30, 1968, are expected to be somewhat larger than the 426 million bushels of this past summer.

Prices Hold Over Loan

The U.S. average farm price remained 12 to 16 cents a bushel above the national average price support loan of \$1.25 per bushel during the harvest of the record 1967 crop. While well below the July-September 1966 average of \$1.72 per bushel, the \$1.39 per bushel average for the first quarter of the 1967/68 marketing year is significant in that this normally is the period of lowest prices. The abnormal pattern of prices during 1966/67 stemmed from concern over world wheat supplies, which at first appeared short of requirements and pushed U.S. prices during July-September to the highest level of the 1966/67 year.

Having withstood the effects of the record 1967 harvest, prices could show some increase. In fact, the October farm price at \$1.43 per bushel was the highest monthly farm price of the current season. Barring an unexpected decline in exports from the indicated 750 million bushels, it appears that the farm price for the entire year may average 10 to 15 percent above the loan.

Loan Activity Increases;
CCC Sales Negligible

Through September, farmers had placed 140 million bushels of 1967-crop wheat under loan, about 64 million more than the same time a year earlier. Through September 1967 the quantity of wheat placed under loan accounted for about 9 percent of the 1967 crop compared with 6 percent a year ago.

Sales and disposition by the Commodity Credit Corporation through September totaled only 11 million bushels, well below the 85 million of a year earlier. With smaller stocks, the CCC has generally withdrawn from the market, limiting their sales and dispositions largely to out-of-condition wheat.

Commercial Reseal
Announced

All farmers who are eligible for price support and use the loan program on 1967 crops will be eligible for reseal in commercial storage. This is similar to the farm reseal program which has been in operation for many years. Storage costs accruing during the reseal period will be paid by CCC. These payments will be made to farmers who provide farm storage or who pre-pay warehouse storage charges for the extended period. If warehouse charges are not prepaid, CCC will make these payments for the extended period direct to the storing warehouseman. Payments by CCC to the warehouseman for reseal will not relieve producers of their obligation for warehouse charges which accrued during the initial loan period.

Procedural Change in
Export Program

Following a series of discussions with U.S. wheat exporters, USDA made several changes in the export payment program which are designed to maximize exports. They became effective on October 30, 1967. The new procedure applies to all classes of wheat except durum. It does not apply to P.L. 480 exports. The major change is the elimination of the requirement that an exporter have made a foreign sale prior to entering into a contract with USDA for export payment. Under the new system, the exporter will offer to export a stated quantity and class of wheat from a specified cost during a specified period. If accepted by USDA, the applicable subsidy rate will be the announced rate in effect at the time the exporter wishes the Department to consider his offer.

The exporter must still furnish a Notice of Sale at the earliest date possible after a sale is made which is to be applied against an existing contract with CCC. However, the Notice of Sale will have no effect upon the subsidy rate applicable to the contract. Provision is also made for assessment of liquidated damages of 25 cents per bushel if an exporter fails to export under his contract with CCC.

Soft Wheat Production
Up Sharply

The most significant feature of the record 1967 crop is the dominant position of soft wheat. Combined soft red winter and soft white wheat production at 510 million bushels made up 33 percent of the total compared with only 28 percent during the 5-year average for 1961-65. Coupled with the June 30, 1967, carryover, the total supply of each of the winter wheats in 1967/68 is larger than a year ago while spring wheat and durum supplies in 1967 are both below 1966 levels.

Winter Wheat Exports
to Increase

Similarly, exports of hard winter, soft red, and white wheats are likely to be larger in 1967/68 than in the preceding year. The increases in the soft red and white wheats stem largely from increased availabilities. The estimated increase for hard winter wheat reflects both the larger supply and the relatively low level of exports of this class of wheat in 1966/67. During 1966/67, hard spring wheat was used extensively in the Food for Freedom Program to protect the smaller supply of hard winter. Exports of hard spring and durum are likely to decline from last year's record levels. Last year's durum exports included large amounts of feed grade wheat; this is not likely to be repeated in 1967/68.

During July-September, grain exports (based on inspections) were sharply higher than a year earlier for soft red winter and white wheats. The inspections of soft red wheat for export do not include the approximately 8 million bushels of 1967-crop wheat shipped from the Gulf ports in June. In June 1966, nearly 5 million bushels of 1966-crop wheat was shipped from these ports. Increased use of soft red and white wheat in the P.L. 480 Program primarily accounts for the stepped-up exports. Hard spring wheat exports were off considerably during July-September 1967, as were durum exports. Almost all of the spring wheat exports were dollar sales.

Table 1.--Wheat: Supply, distribution and prices, annual 1962-67

Item	Year beginning July					
	1962	1963	1964	1965	1966 1/	1967 pro- jected
	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.
<u>Supply</u>						
Carryover, July 1	1,322.0	1,195.2	901.4	817.3	535.2	426
Production	1,092.0	1,146.8	1,283.4	1,315.6	1,310.6	1,554
Imports 2/	5.4	3.9	1.1	.9	1.8	1
Total	2,419.4	2,345.9	2,185.9	2,133.8	1,847.6	1,981
<u>Domestic disappearance</u>						
Food 3/	500.4	503.3	509.2	515.1	507.7	512
Seed	61.4	65.0	65.6	61.9	78.3	70
Industry	.1	.1	.1	.1	.1	---
Feed (residual) 4/	18.5	20.0	68.7	154.1	92.8	100-125
On farms where grown	(16.1)	(15.2)	(31.4)	(41.7)	(24.6)	
Total	580.4	588.4	643.6	731.2	678.9	682-707
<u>Available for Export and Carryover</u>	1,839.0	1,757.5	1,542.3	1,402.6	1,168.7	1,274-1,299
<u>Exports 2/</u>	643.8	856.1	725.0	867.4	742.4	750
Total disappearance	1,224.2	1,444.5	1,368.6	1,598.6	1,421.3	1,432-1,457
<u>Stocks, June 30</u>	1,195.2	901.4	817.3	535.2	426.3	524-549
Private--"Free"	(6.0)	(19.7)	(97.0)	(194.8)	(221.9)	
<u>Price support (per bu.)</u>						
National average loan rate	2.00	1.82	1.30	1.25	1.25	1.25
Average certificate payment	---	5/.18	.43	.44	.59	.48
<u>Season Average Price Received:</u> (per bu.)						
By all producers	2.04	1.85	1.37	1.35	1.63	
By program participants	2.04	2.03	1.80	1.79	2.22	

1/ Preliminary. 2/ Imports and exports are of wheat, including flour and other products in terms of wheat. 3/ Used for food in the United States and U.S. territories, and by the military both at home and abroad. Revisions in food item based on 1963 Census of Manufactures. 4/ Assumed to roughly approximate total amount used for feed, including amount used in mixed and processed feed. 5/ Includes 18 cents per bushel price support payment made to producers participating in voluntary diversion program in 1963.

Table 2.--Wheat: Estimated supply and distribution by classes, United States, average 1964-66, annual 1966, and projection for 1967

(Note.--Figures in this table, except production, are only approximations)

Item	Hard winter	Red winter 1/	Hard spring	Durum	White	Total
	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.
<u>Average 1964-66</u>						
Carryover, July 1	490	6	189	54	12	751
Production	661	207	190	67	178	1,303
Imports 2/	---	---	2	---	---	2
Supply	1,151	213	381	121	190	2,056
Exports 2/	490	64	77	30	117	778
Domestic disappearance 3/	308	140	137	41	59	685
Carryover, June 30	353	9	167	50	14	593
<u>1966/67</u>						
Carryover, July 1, 1966	267	8	186	54	4/20	535
Production	676	213	181	63	178	1,311
Imports 2/	---	---	2	---	---	2
Supply	943	221	369	117	198	1,848
Exports 2/	377	66	120	47	132	742
Domestic disappearance 3/	306	143	136	41	54	680
Carryover, June 30, 1967	260	12	113	29	4/12	426
<u>1967/68 (Projected)</u>						
Carryover, July 1, 1967	260	12	113	29	4/12	426
Production	722	279	239	69	245	1,554
Imports 2/	---	---	1	---	---	1
Supply	982	291	353	98	257	1,981
Domestic disappearance 3/	311-326	145-150	136	30	60-65	682-707
Available for export and carryover	656-671	141-146	217	68	192-197	1,274-1,299
Exports 2/	393	110	65	22	160	750
Carryover	263-278	31-36	152	46	32-37	524-549

1/ Beginning with 1964, exports adjusted to reflect year of production

2/ Imports and exports are of wheat, including flour and other products in terms of wheat.

3/ Wheat used for food (in the United States and U.S. territories, and by the military both at home and abroad) feed, seed, and industry.

4/ Based largely on Pacific Northwest wheat survey, but includes allowance for white wheat in the East and other West.

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR TOBACCO

Talk by S. M. Sackrin
Economic and Statistical Analysis Division
at the Annual Agricultural Outlook Conference
Washington, D. C., 10:50 A.M., Thursday, November 16, 1967

Leaf Tobacco

Supplies of the big-volume cigarette tobaccos--flue-cured and burley--have been reduced from the peak levels of 1964/65. Supplies of several other kinds have also been adjusted toward a better balance with requirements.

The 1968 flue-cured marketing quota was announced last July. Marketing quotas for burley, Maryland, fire-cured, dark air-cured, and certain cigar tobaccos will be announced by February 1, 1968. Referendums will be held for growers of burley, Maryland, Virginia sun-cured, and Pennsylvania filler tobacco to vote on whether they favor marketing quotas and acreage allotments for their 1968, 1969, and 1970 crops. For fire-cured, dark air-cured, Connecticut binder types, and Ohio filler-Wisconsin binder types, growers approved quotas applicable to the 1968 crop in previous referendums.

Government price support is mandatory for the kinds of tobacco produced under a marketing quota. Price support levels for the 1968 tobacco crops will be determined by comparing the average parity index for calendar years 1965-67 with the 1959 index and adjusting the respective 1959 support levels by the resulting percentage change. If the parity index for the rest of this year remains at its October level, the overall support levels for 1968 tobacco would be 4 percent higher than in 1967.

Flue-cured tobacco: The 1967/68 total supply of flue-cured is about the same as in 1966/67, but 6 percent below the record 1964/65 level. Carryover stocks in mid-1967 were down 7 percent from a year earlier. However, marketings from this year's crop are estimated at 15 percent above 1966, when the crop was the second smallest in 7 years.

The mid-1968 carryover of flue-cured may be up a little, but 1968 production likely will be smaller than this year's. The national flue-cured marketing quota for 1968 is essentially the same as for 1967. However, acreage allotments and poundage quotas for individual farms will be adjusted to reflect undermarketings and overmarketings. Overmarketings from the 1967 crop seem likely to exceed undermarketings, and the adjustments to take this into account would reduce the 1968 total of individual farm quotas below 1967. An overwhelming majority of growers of flue-cured voting in a July 1967 refer-

endum approved the continuation of marketing quotas on an acreage-poundage basis for their 1968, 1969, and 1970 crops.

During the 1966/67 marketing year, exports of flue-cured (over four-fifths of total U.S. tobacco exports) were record high, but domestic use was below 1965/66. Exports during 1967/68 are expected to continue well above most of the last several years, but probably not as high as in 1966/67.

By early November, over four-fifths of the flue-cured crop had been marketed. Auction prices averaged 64.5 cents per pound--4 cents below the record average in the comparable sales period a year ago. Placements under Government loan through early November amounted to about 20 percent of market deliveries. In the entire 1966 season, 7 percent of market deliveries went under loan. The quantity of types 11-13 flue-cured sold in untied form rose sharply above a year ago, as in these markets flue-cured tobacco of all grades could be marketed untied with price support during a longer period than in 1966. To help relieve market congestion through more orderly marketing of this year's crop, an advance price-support loan program on 1967-crop flue-cured stored on farms was announced in late September.

Burley tobacco: The 1967/68 supply of burley is 3 percent below the previous year and 6 percent below the 1964/65 record. Carryover on October 1 was about 2 percent less than a year earlier. As of October 1, the burley crop was indicated to be 6 percent under both 1965 and 1966, and the smallest in 7 years. In 1966/67, domestic use of burley rose some and exports about equaled the previous year's high level. Combined domestic use and exports in 1967/68 may gain. Growing popularity of American-type blended cigarettes abroad has increased world demand for burley. However, U.S. burley faces increased competition from expanded foreign production.

Other tobaccos: The 1967/68 supply of Maryland tobacco is down moderately from the relatively high level of 1966/67, due to a lower carryover. Both domestic use and exports in 1966/67 increased to the largest in many years. The 1967/68 supplies of Kentucky-Tennessee fire-cured and dark air-cured tobacco are smaller than in 1966/67. Production of both kinds declined from a year earlier. Carryover of Kentucky-Tennessee fire-cured fell 5 percent, but that of dark air-cured approximated the previous year's. The 1967/68 supply of Virginia fire-cured is around a tenth below 1966/67, with this year's crop indicated to be the second lowest on record. The supply of Virginia sun-cured for 1967/68 is down about 3 percent.

The 1967/68 supplies of Pennsylvania and Ohio filler tobaccos are considerably below the previous year. Production of Puerto Rican cigar filler is being increased over the extremely small harvest early this year, but is still substantially below average crops prior to 1965. The 1967/68 total supply may be the lowest in many years.

The 1967/68 supply of Connecticut Valley cigar binder is lowest on record; the supply of Connecticut Valley cigar wrapper is moderately below the previous

year's, but nearly the same as the recent 5-year average. The 1967/68 supply of Southern Wisconsin binder is also down. Georgia-Florida cigar wrapper supply for 1967/68 is largest in 5 years; both this year's crop and carryover increased over 1966.

Tobacco Products

Cigarettes: The 1967 output of cigarettes is expected to total a record 580 billion--nearly 13 billion above 1966 and about 23 billion above 1965. Consumption by U.S. smokers (including those shipped for overseas forces) is estimated at 551 billion--10 billion more than in 1966 and also a new high. Cigarette shipments to overseas forces have increased significantly during the past year. The number of cigarettes consumed per capita, 18 years and over, in 1967 is estimated at 4,295 ($214\frac{3}{4}$ packs)--slightly above 1966 and second only to 1963, when it was 4,345 ($217\frac{1}{4}$ packs). A further modest increase in total cigarette consumption in 1968 seems likely, mainly because of the continuing increase in the smoking-age population and the high level of consumer income.

In mid-1967, as required by the Federal Cigarette Labeling and Advertising Act, the Federal Trade Commission and the Secretary of the Department of Health, Education, and Welfare, submitted reports and recommendations to Congress on smoking and health. Both reports recommended that the warning statement on cigarette packages be strengthened and that information on "tar" and nicotine levels in cigarette smoke also be required--on cigarette packages and in cigarette advertising. Annual reports hereafter are required to be submitted to Congress by FTC and the Secretary of HEW. Approximately 50 major brands of cigarettes are being tested in the FTC cigarette testing laboratory to determine their "tar" and nicotine content.

Since the mid-1950's, the quantity of tobacco (unstemmed weight) used per 1,000 cigarettes has declined fairly steadily. A factor in this decline has been the trend towards filter-tip cigarettes, most of which (until the fairly recent introduction of 100 millimeter lengths) had a shorter tobacco column than most nonfilter tip brands. Other contributing factors have been substantially greater use of processed stems (midribs of leaves), use of reconstituted sheet made from stems and small fragments of leaf, and other manufacturing efficiencies. Trade reports indicate rising sales of 100 millimeter filter tip cigarettes. This development could increase the total requirement for tobacco filler material in 1967/68 compared with 1966/67.

Retail prices of cigarettes have risen, reflecting the advance in manufacturers' prices in early June and increases in cigarette taxes in several States. The September 1967 Bureau of Labor Statistics retail price index for filter-tip king-size cigarettes was nearly 5 percent above a year ago.

Cigars and Cigarillos: The 1967 consumption of cigars and cigarillos may be a little over 8 billion--about 2 percent below 1966 and about 6 percent below 1965. The downtrend in cigar consumption that has persisted since the unusually high peak of 1964 is expected to level out in the year ahead, and total cigar and cigarillo consumption in 1968 may not be markedly different

than in 1967. Cigar and cigarillo consumption per male 18 years and over is estimated at 131--about 4 percent below 1966, but 6 percent higher than the 1959-63 average. The sharp uptrend in number of cigars shipped from Puerto Rico to the mainland tapered off in 1967. Cigars from Puerto Rico account for over one-eighth of total U.S. consumption. The 1967 taxable removals of small cigars (cigarette size and not included in the cigar-cigarillo total) probably will be moderately lower than in 1966 and may be the lowest in 4 years.

Smoking Tobacco: The 1967 output of smoking tobacco for pipes and roll-your-own cigarettes is estimated at about 62 million pounds--8 percent below 1966. Imports of smoking tobacco in 1967 may approximate those of 1966. Smoking tobacco consumption per male 18 years and over is estimated at 8 percent less than in 1966 and 18 percent less than 10 years ago. No appreciable increase in total consumption of smoking tobacco is expected for 1968.

Chewing Tobacco and Snuff: The 1967 output of chewing tobacco may be around 65 million pounds--about the same as in 1966. Total output of chewing tobacco, which had declined for many years, has remained fairly stable since 1960 because increases in scrap and fine-cut chewing have about offset decreases in plug and twist. The 1967 consumption of chewing tobacco per male 18 years and over is estimated at slightly below that of 1966, but has dropped nearly 20 percent in the past 10 years.

The 1967 output of snuff is estimated at 29 million pounds--about 2 percent less than 1966. Production has trended downward since 1956, and output in 1968 is expected to continue the downward drift. Per capita consumption of snuff in 1967 is estimated at near the 1966 level, but 28 percent less than 10 years ago.

Exports and Imports of Unmanufactured Tobacco

Exports of unmanufactured tobacco in calendar 1967 are expected to total about 585 million pounds (about 660 million farm-sales weight)--6 percent above 1966 and the largest since 1946. Due to mandatory U.N. trade sanctions in force since December 1966, substantial tobacco stocks are accumulating in Rhodesia. That country ranks second only to the U.S. as an exporter of flue-cured, the leading tobacco in world trade. The ultimate disposition of the accumulating stocks of flue-cured tobacco in Rhodesia continues to be the major question in world tobacco trade. For fiscal year 1967/68, total U.S. tobacco exports may be moderately below the 47-year high of 1966/67, but well above other recent years.

In recent years, approximately an eighth of total U.S. tobacco consumption has consisted of foreign-grown tobacco, imported mainly for blending with domestic types in the manufacture of cigarettes and cigars. Cigarette leaf imports for consumption in the year ended June 30, 1967, rose about 10 million pounds to 144 million pounds--a gain of 8 percent. During the same period, cigarette manufacture increased about 2 percent. For calendar 1967, cigarette leaf imports for consumption may approximate 150 million pounds, compared with 137 million in 1966. Total arrivals (general imports) have continued large, and recent stocks in the U.S. have been at record or near-record levels. Cigar tobacco imports for consumption in fiscal 1966/67, at 61 million pounds (farm-sales weight), were up a little from 1965/66. U.S. stocks of foreign cigar tobaccos have been reduced from the high levels of 1 and 2 years ago.

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR PEANUTS IN 1967/68

Talk by George W. Kromer
Economic and Statistical Analysis Division
at the Annual Agricultural Outlook Conference
Washington, D.C., 9:15 A.M., Thursday, November 16, 1967

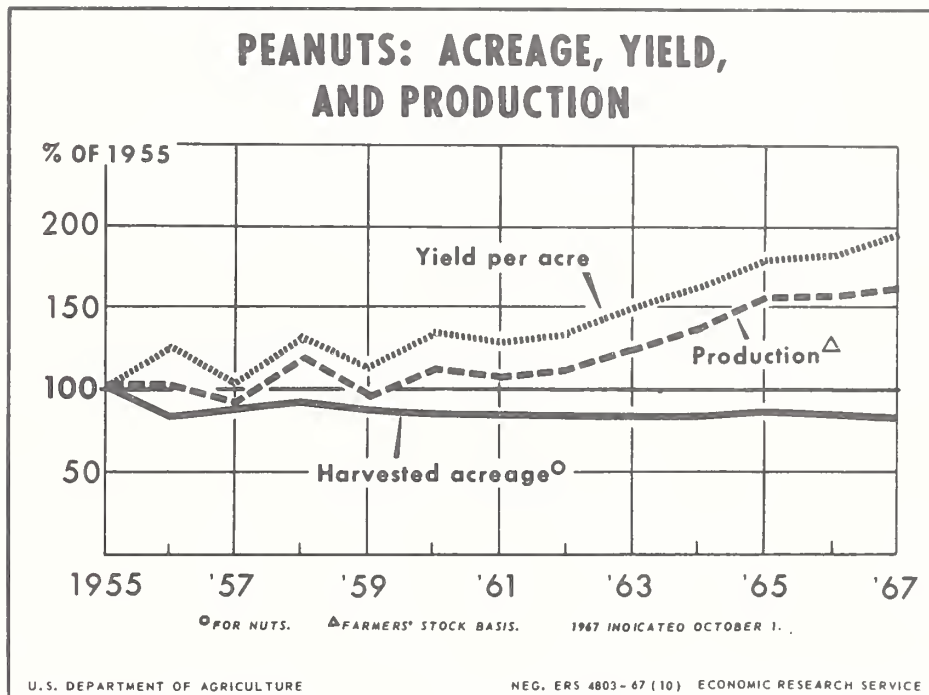


Figure 1

Trend: Since 1956, the U.S. annual peanut acreage allotment has been held to the 1.6-million-acre minimum permitted by law, and harvested acreage has remained steady. But because of the sharp uptrend in yields per acre, peanut production has increased about 64 percent. The rapid rise in yields reflects increased use of fertilizer, herbicides, shifts to higher-yielding varieties, growth of more plants per acre by closer plantings and closer rows, and increased use of mechanical harvesters.

Outlook: The peanut acreage being harvested this year, at 1,399,000, is nearly 2 percent below 1966. The 1967 peanut crop is estimated at 2.5 billion pounds compared with 2.4 billion produced in 1966. The higher output this year is due to record yields per acre--1,817 pounds (October estimate) compared with last year's 1,696 pounds. USDA announced on October 27, a 1968-crop peanut national acreage allotment of 1,610,000 acres for picking and threshing and a national peanut marketing quota of 1,489,250 tons (2,978 million pounds). Peanut marketing quotas have been in effect each year since 1949.

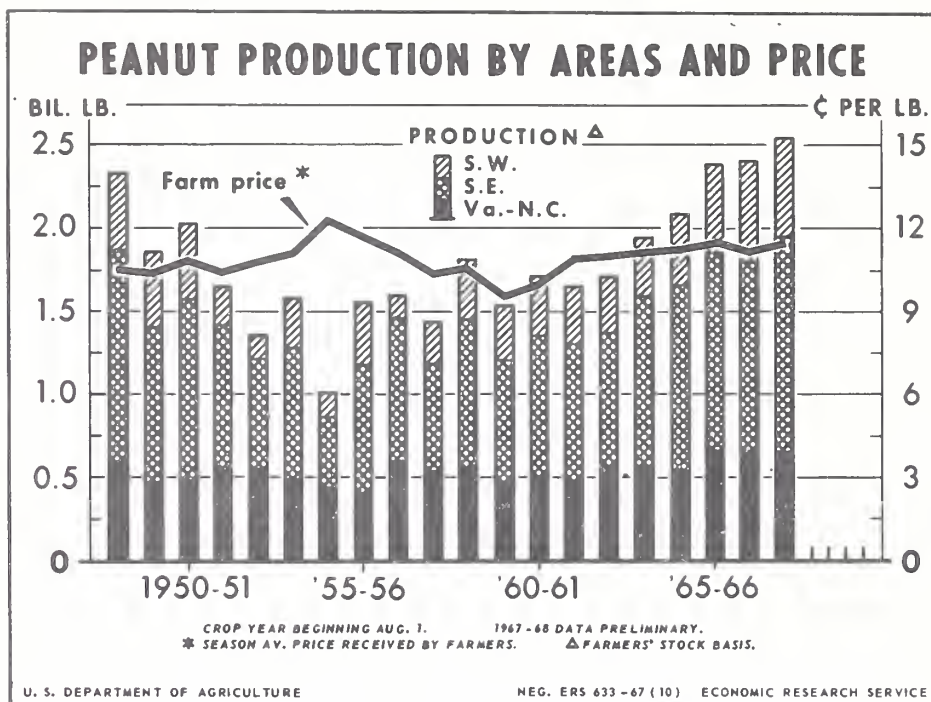


Figure 2

Trend: Peanut output in each of the 3 major producing areas has increased since 1954 (drought year), reflecting uptrend in yields. Annual fluctuations in production are largely due to weather conditions such as drought during the growing period, hurricanes or sustained rains during harvesting and curing and untimely frosts. Peanut yields per acre are highest in the Virginia-Carolina area and lowest in the Southwest.

Outlook: About half the 1967 peanut crop is expected to be produced in the Southeast area, with the Virginia-Carolina area and the Southwest each producing a quarter. Expected yields per acre are somewhat below the 1966 record in the Virginia-Carolina area and the Southwest. But in the Southeast area, record yields are being obtained this year. Because of sharp increase in yields, U.S. peanut production from the minimum acreage allotment has resulted in supplies above edible requirements. CCC has acquired the excess. The 1967/68 outlook is for peanut prices to average around 11.4 cents per pound--a shade above last year. The 1967 crop of peanuts is being supported at a national average loan rate of \$227 per net weight ton (11.35 cents per pound)--the same as in 1966. Price supports are available through loans and purchases from time of harvest through January 31, 1968. The marketing agreement program--which was started with 1965-crop peanuts to regulate the quality of peanuts marketed by handlers for edible use--also is being continued in 1967/68.

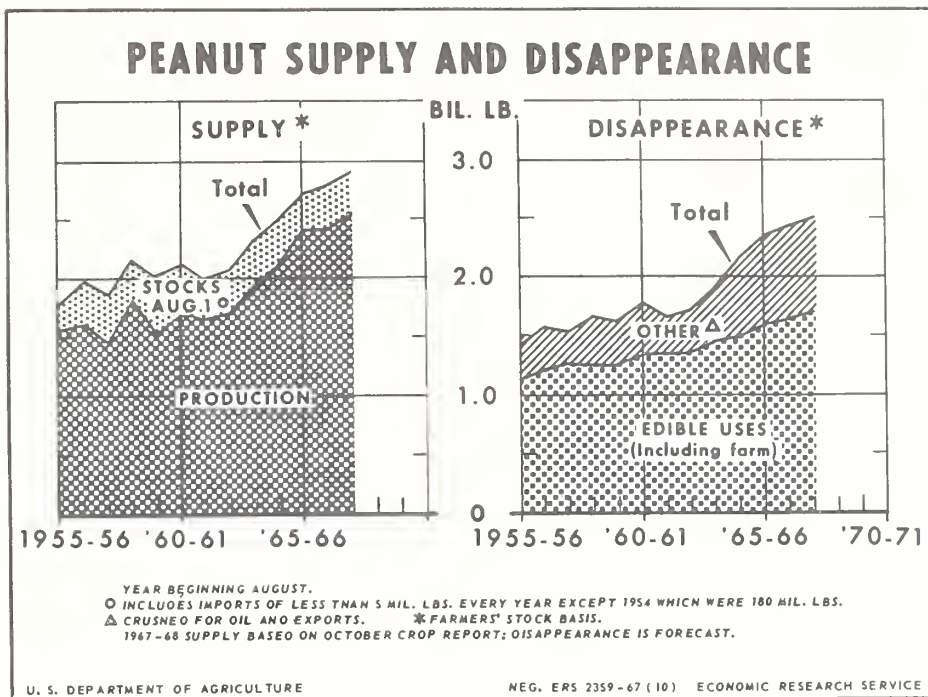


Figure 3

Trend: U.S. peanut supplies have risen from around 1.7 billion pounds (farmers' stock basis) in 1955 to a record 2.8 billion in 1966. Edible domestic uses during the same period moved up steadily from about 1.1 billion pounds to 1.6 billion. Crashings have increased because of large surpluses above edible requirements. The availability of surplus peanuts from CCC stocks at competitive world prices, have helped maintain U.S. peanut exports in recent years.

Outlook: Total supply of peanuts in the 1967/68 marketing year that started August 1 is estimated at a record 2.9 billion pounds (net weight), about 3 percent more than last year. Edible uses are expected to continue upward during 1967/68. A growing population with more income to spend along with increased consumer acceptance of quality peanut products are factors boosting consumption. In spite of projected increases in edible consumption, about a third of the 1967 peanut crop will be available for crushing, exports, and stock accumulation. Most of the peanuts placed under the support program are expected to be acquired by CCC. Peanut crashings during 1967/68 are expected to total close to the 0.6 billion pounds crushed last year. The final rate of crush will depend upon the CCC diversion policy (with respect to peanuts acquired under the 1967 support program) and the quality of the 1967-crop peanuts. Peanut exports in 1967/68 may be maintained near the 0.2 billion pounds last year. However, U.S. peanuts will face larger competitive world supplies, mainly from India.

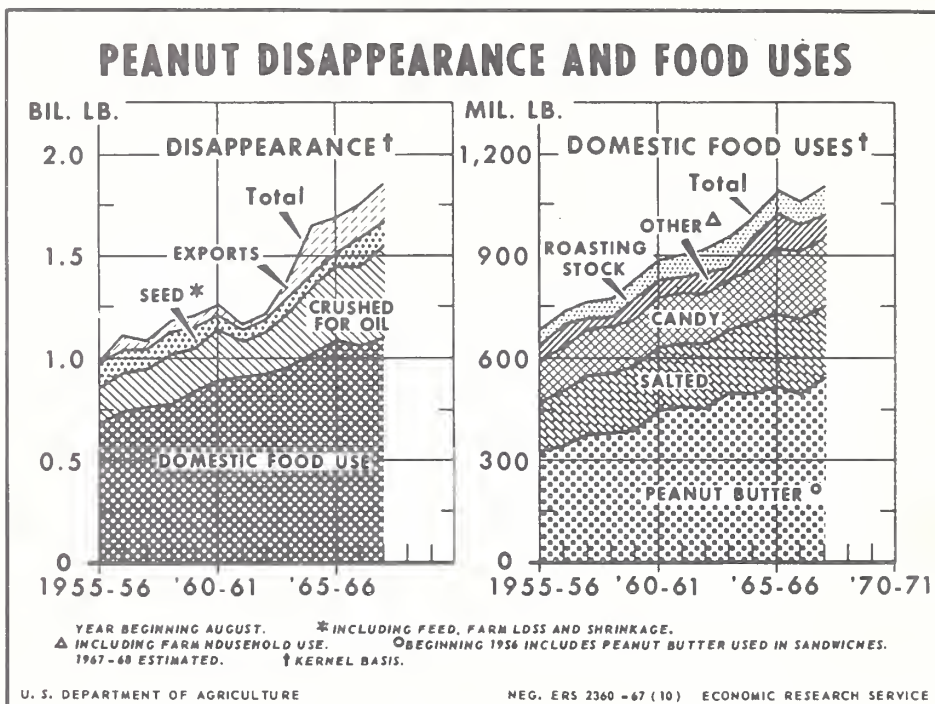


Figure 4

Trend: About two-thirds of the total U.S. disappearance of peanuts is in edible products--chiefly peanut butter, candy, salted, and roasted in shell peanuts. The remaining one-third is crushed for oil and meal, exported, used for seed and feed, or is classified as farm loss. Distribution of the record 1966 crop was as follows: Domestic food use, 61 percent; crushings, 23 percent; exports, 9 percent; and seed, feed and loss, 7 percent.

Since 1955/56, the edible consumption of peanuts (kernel basis) has risen from 0.7 billion pounds that year to 1.1 billion in 1966/67. In terms of per capita (farmers' stock basis), the increase has been from 5.8 pounds (4.1 shelled) to 7.6 pounds (5.5 shelled). Of this, almost 7 pounds are consumed in the form of peanut butter (including sandwiches), salted peanuts, and in candy. The other pound is divided almost equally between cleaned roasting stock peanuts (the ball-park type) and those consumed as food on the farm. In 1966-67, about 53 percent of the total edible peanuts went into the manufacture of peanut butter, 24 percent were salted, and 21 percent were used in candy.

Outlook: The edible consumption rate of peanuts for 1967-68 is estimated at nearly 8 pounds per person (6 shelled basis)--up slightly from the 7.6 pounds a year earlier. With increased population, total consumption likely will be even higher. The increase probably will be mainly in peanut butter and peanut candy. Reported edible uses of peanuts during August-September 1967 were 5 percent ahead of last year. Demand for peanut products has increased in recent years at relatively stable prices to peanut growers.

OUTLOOK FOR FATS, OILS, AND OILSEEDS IN 1967-68

Talk by George W. Kromer
Economic and Statistical Analysis Division
at the Annual Agricultural Outlook Conference
Washington, D.C., 9:15 A.M., Thursday, November 16, 1967

Trend: U.S. supplies of edible fats, oils, and oilseeds rose from 12.2 billion pounds (oil equivalent of oilseeds) in 1955 to 17.5 billion pounds in 1966, an increase of 43 percent. The gain is attributed mainly to increased soybean production which more than offset reduced supplies of lard, cottonseed oil, and butter. Soybeans now comprise two-thirds of total supply compared with one-third in 1955.

Outlook: The U.S. food fat supply during the 1967/68 marketing year (started October 1) will be around 19.0 billion pounds, 8 to 9 percent above 1966/67. The increase is due mainly to record supplies of soybeans. With abundant supplies of most oilseeds, farm prices in 1967/68 will likely average near support levels and below a year ago. Availabilities of food fats in 1967/68 are well in excess of domestic requirements and some buildup in soybean stocks probably will take place, despite anticipated heavy export movement of food fats and oils and soybeans.

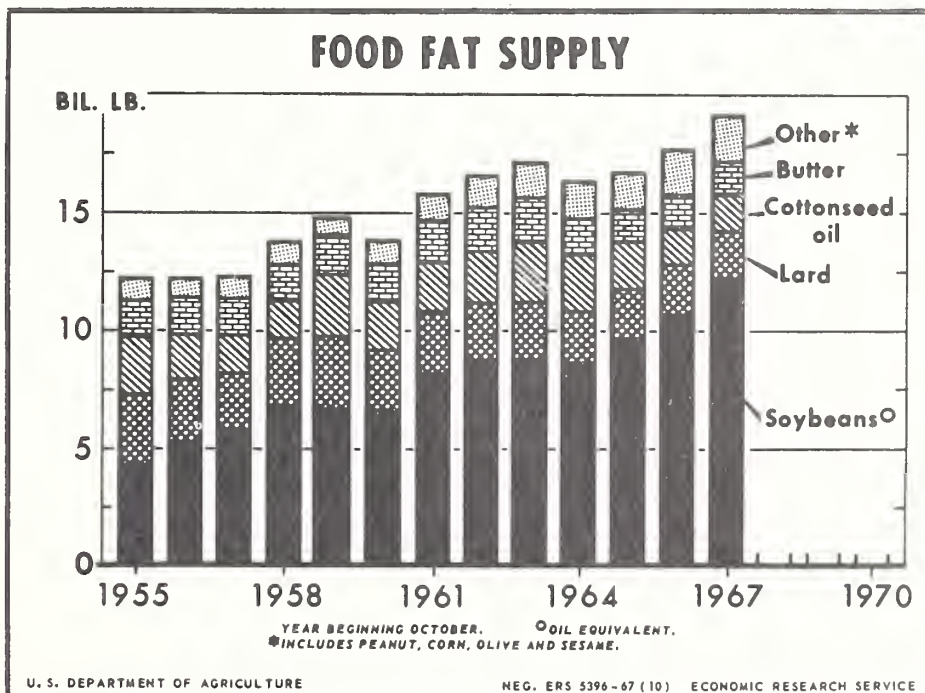


Figure 1

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Trend: Domestic disappearance of the 4 major food fats increased from the 1949-53 average of 7.0 billion pounds to about 8.8 billion in 1966. During this period, soybean oil gained steadily, from 30 percent of the fats shown to 54 percent in 1966. Increases in soybean oil more than offset declines in butter, lard and cottonseed oil. The steady growth pattern for soybean oil reflects in part the consumer shift from animal fats to vegetable oils and liquid-type oil products. It also reflects the expanding use of vegetable oils in the production of margarine, shortening, mayonnaise, salad dressings, potato chips, frozen french fries, mellorine, bakery products (cookies, crackers, etc.), and other prepared foods.

Outlook: Further increases in population and consumer incomes along with large military procurement likely will boost domestic use of food fats and oils to record levels. Domestic disappearance of the 4 major food fats during 1967/68 is estimated at around 9.2 billion pounds, up some 3 to 4 percent from a year ago. Soybean oil probably will reach new highs--both in total usage and relative proportion--accounting for around 56 percent of the major fats utilized. Cottonseed oil use likely will decline again because of reduced supply and relatively high price. Total lard usage during 1967/68 probably will continue at year earlier levels. Domestic disappearance of butter is expected to increase slightly during 1967/68, as CCC donations for domestic programs rise. The total food fat per capita rate in 1967/68 probably will be more than the 48 pounds calculated for 1966/67.

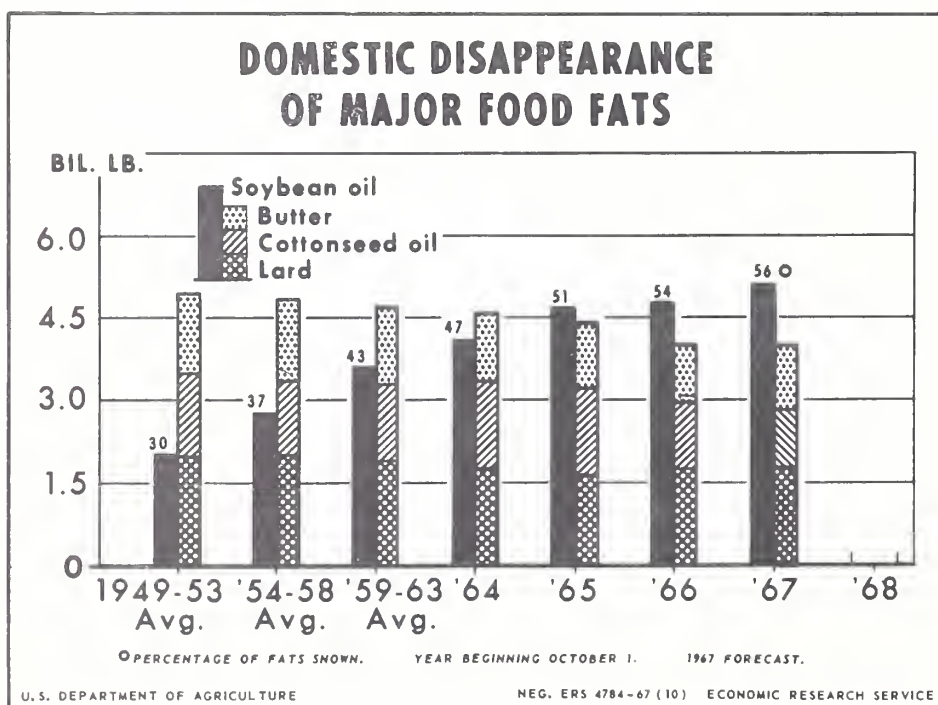


Figure 2

Trend: U.S. exports of food fats and oils (including the oil equivalent of soybeans) increased from 3.0 billion pounds in 1955 to a record 5.1 billion pounds in 1963 and 1964. In spite of record soybean shipments in 1965 and 1966, total exports were lower because of sharp reductions in edible vegetable oils, lard and butter. In 1955, total exports accounted for about a fourth of the U.S. output of these commodities but by 1966 the proportion increased to a third. The increase in U.S. exports is attributed to soybeans (including soybean oil) which now represents over four-fifths of the total food fat exports.

Outlook: The quantities of edible fats and oils available for export in the 1967/68 marketing year that started October 1 are estimated at around 5.0 billion pounds, compared with 4.6 billion exported last year and the record 5.1 billion pounds in 1964/65. The increase is in soybeans (including soybean oil). Such a total export volume would account for about one-third of the 1967/68 U.S. output of these commodities.

Competition in world markets will continue strong although the final outcome of major foreign crops is still not known. But lower average U.S. prices might improve our competitive position in export markets.

The United States accounts for about one-fourth of the world's production of all oilseeds, oils, and fats, and approximately one-third of the world's exports.

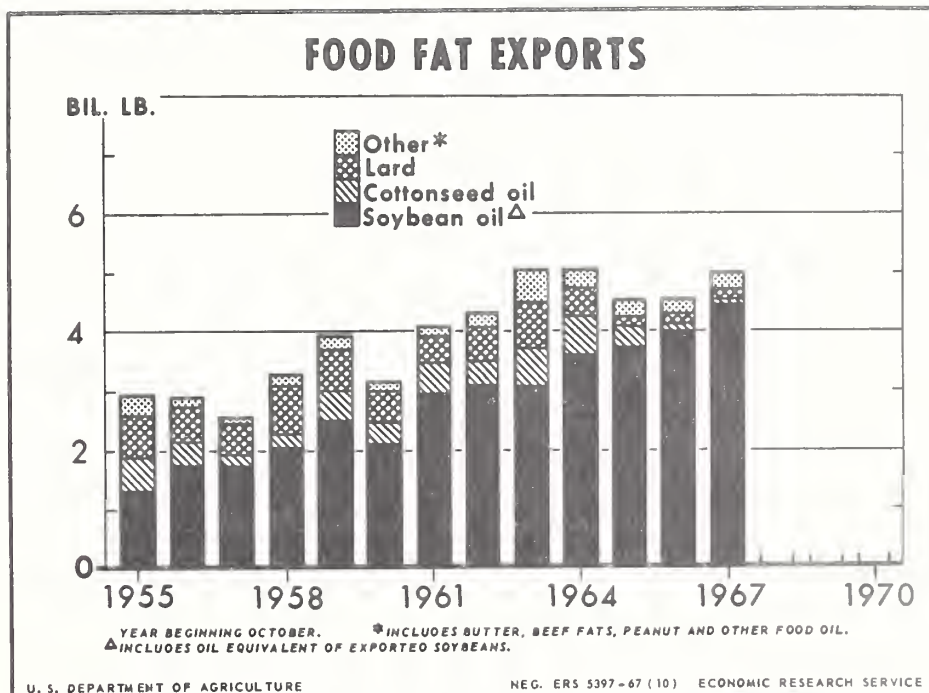


Figure 3

Trend: U.S. soybean production in 1967 is $3 \frac{1}{3}$ times that of 1950, primarily because of a similar increase in harvested acreage. The average yield per acre has shown little trend during this period. Since 1956, the U.S. soybean yield has remained on a plateau, varying between 21.8 bushels per acre that year and the 1966 peak of 25.4 bushels. The relatively stationary yields partly reflect the rapid expansion of soybeans into new acres for which available varieties were not so well suited, and the planting of soybeans by many farmers lacking experience with the crop. Soybean yields per acre need to be raised for soybeans to compete more effectively with feed grains and other cash crops in the Corn and Cotton Belts. Higher yields will also help farmers combat the continuing rise in production costs.

Outlook: The 1967 soybean crop, as of November 1, is estimated at 985 million bushels--6 percent above the 931 million bushels in 1966. Acreage being harvested for beans is 40.1 million, up about 10 percent from the 36.6 million in 1966. Increases occurred in all producing regions and rapid expansion continued in southern areas. Estimated U.S. average yield (November 1) is 24.6 bushels per acre, 0.8 bushels below the 1966 record of 25.4 bushels. Favorable market prices received during 1966/67 were an important factor encouraging farmers to expand their 1967 soybean acreage.

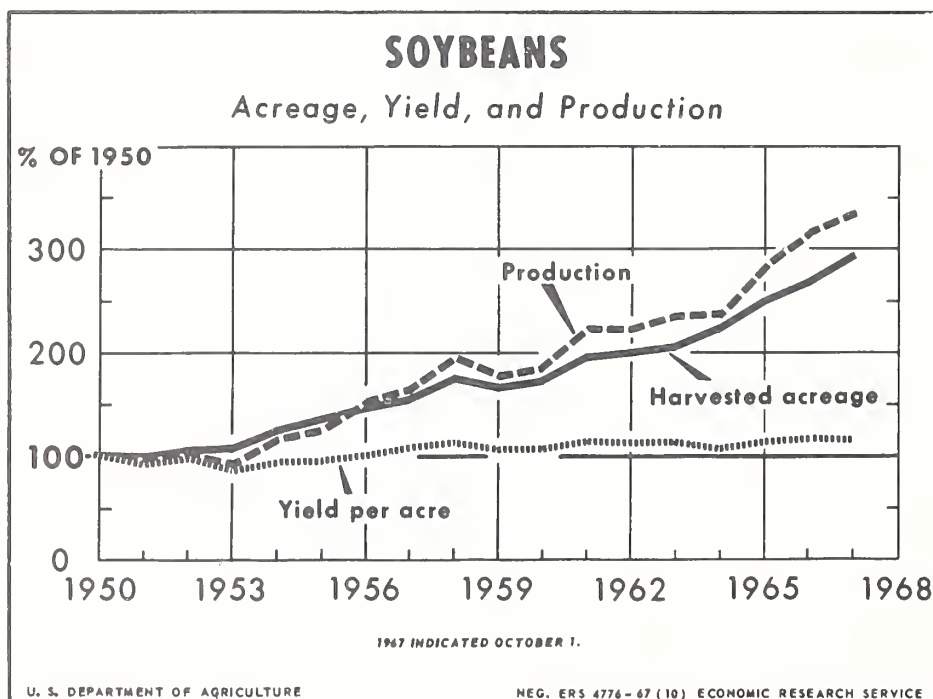


Figure 4

Trend: In most years since 1953, the U.S. season average price received by farmers for soybeans has been somewhat above the government support rate. Farm prices have trended upward nearly \$1 per bushel during 1959-66. The support price for 1967-crop soybeans is \$2.50 per bushel, the same as in 1966 but 25 cents over the rate in effect during 1962-65. Soybean prices at Chicago usually average around 20 cents a bushel over U.S. farm prices. While in some years significant quantities of soybeans were placed under the CCC price support program, these beans were subsequently needed and carryovers remained relatively small. Annual increases in soybean production will rarely coincide exactly with annual increases in requirements.

Outlook: The 1967/68 U.S. season average price received by farmers for soybeans is expected to be around \$2.50 per bushel--approximating the support price. This would compare with \$2.77 per bushel (weighted by monthly sales) received in 1966/67. Prices to farmers for soybeans during October 1967, a heavy marketing month, averaged \$2.44 per bushel, about 34 cents below October 1966. Farm prices during most of the 1967 harvesting season are expected to average close to the loan rate. Later in the season market prices are expected to strengthen but may continue around the support level. Storage facilities are limited in some southern areas where soybean acreage increased sharply this year and many farmers are selling their beans at combining this fall.

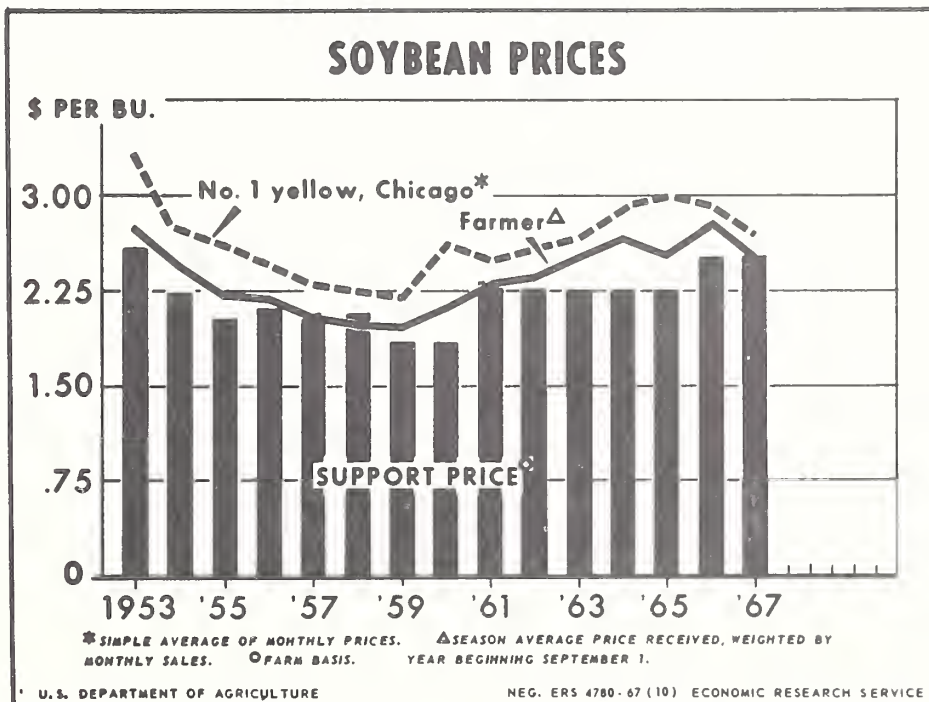


Figure 5

Trend: U.S. supplies of soybeans have trended upward from 515 million bushels in 1957 to 967 million 1966. Domestic use (mainly crushings for oil and meal) increased sharply during the period but the biggest percentage gain was in exports. Total growth in soybean utilization (crushings, exports, seed, and feed) during 1953-65 has averaged 46 million bushels annually. This is an annual rate of increase approximating 10 percent. This rate fell to 4 percent during the 1966/67 marketing year. Only in 1960/61 and 1963/64 was annual growth in utilization less than in 1966/67; in 1960/61 utilization was restricted by lack of supply. Growth in soybean utilization was limited in 1966/67 by higher soybean prices and increased world competition from other oilseeds, fats, and oils--particularly USSR sunflower seed and oil.

Outlook: Soybean supplies for the marketing year that started September 1, 1967, are placed at a record 1.1 billion bushels--12 percent more than last year. This consists of a carryover of 91 million bushels and the 1967 crop of 985 million bushels. Soybean usage during 1967/68 is expected to increase at a faster rate than last year and more in line with the recent average of about 10 percent. Domestic crushings may reach as high as 600 million bushels compared with 551 million in 1966/67. The final level of crush will depend upon such factors as soybean and soybean meal prices, our ability to export soybean oil, and competition from foreign oil-bearing crops. Soybean exports may rise to around 280-300 million bushels compared with 257 million during 1966/67. Prospective increases in exports and the domestic crush probably will not match this year's record soybean crop. As a result some further stock buildup is likely and present indications point to stocks next September perhaps $1\frac{1}{2}$ times the 91 million bushels this year.

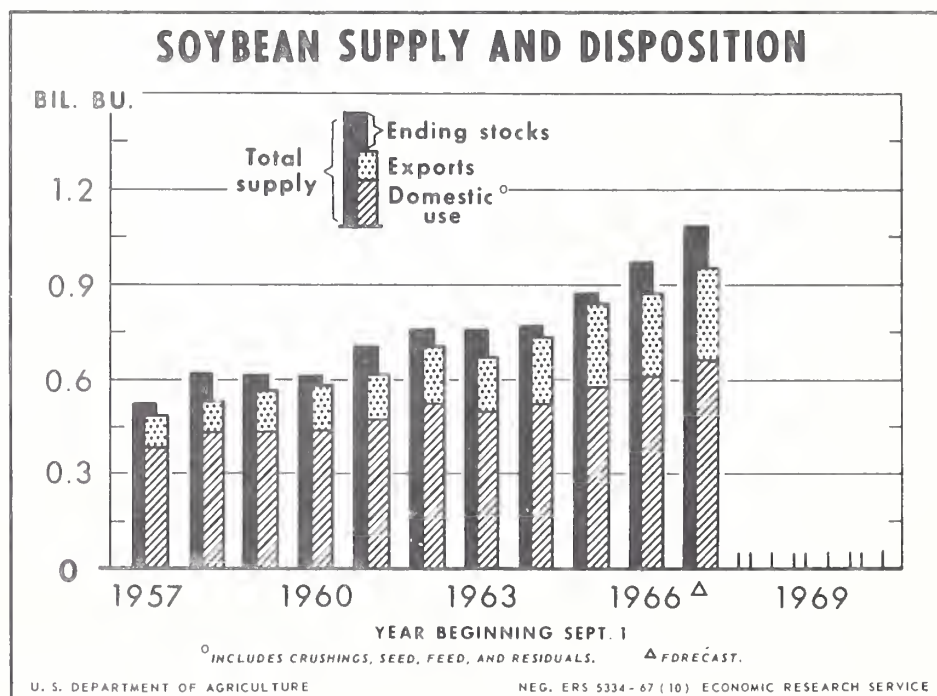


Figure 6

Trend: The U.S. soybean processing industry has continued to anticipate increases in soybean production and their growing markets for soybean oil and meal. Soybean processing capacity more doubled since 1951/52, rising from 310 million bushels that year to 650 million in 1966/67. The efficiency and capacity per plant increased markedly during this period as the number of processing mills declined from 193 in 1951/52 to an estimated 135 in 1967/68. During this period, the average annual processing capacity per mill rose from 1.6 million bushels to 5.6 million. Processing capacity has substantially exceeded the volume crushed (by about 20 percent) despite the sharp uptrend in soybean production and reduction in number of mills.

Outlook: Trade sources estimate the U.S. soybean processing capacity during the 1967/68 season at around 750 million bushels, about 15 percent more than the 650 million last year. On a monthly basis, this would be around $62\frac{1}{2}$ million bushels compared with about 55 million in 1965/66. A 1967/68 soybean crush of 600 million bushels would mean an operating rate for the industry around 80 percent of capacity, which is about equal the long run utilization rate. During the past year, there were some processing plants constructed and others expanded existing facilities. However, some of the new plant capacity probably will not be available until later in the marketing year. Also, more cottonseed crushers may process soybeans this year because of the smaller cottonseed crop. Cottonseed oil mills not having solvent extraction equipment are not as efficient in processing soybeans as most soybean mills in the Corn Belt.

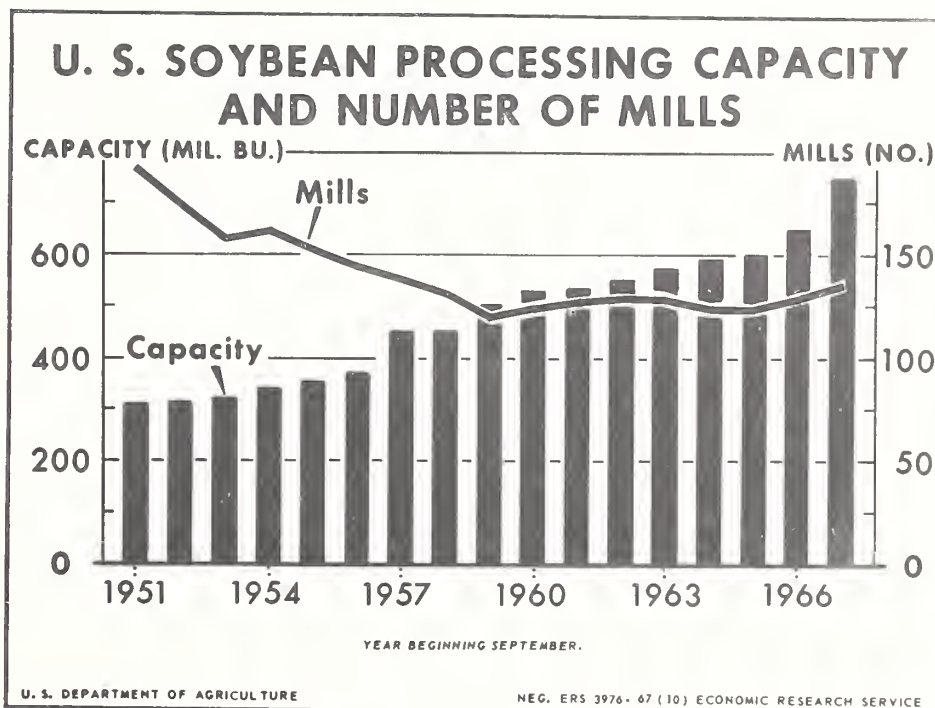


Figure 7

Trend: U.S. soybean exports have increased from 105 million bushels in 1958 to 257 million in 1966. The average annual rate of increase was around 13 percent. Western European countries, Japan, Canada, Israel, and Taiwan are the major foreign markets for U.S. soybeans, accounting for about 98 percent of our soybean exports in 1966/67. These economically advanced dollar markets use U.S. soybeans as a source of animal feeds and as an edible oil in food products. Japan buys large quantities for use as edible protein. Spain has become a significant outlet for U.S. soybeans, taking 27 million bushels in 1966/67, compared with 18 million in 1965/66. The United States accounts for about 75 percent of the world production of soybeans and Mainland China about 20 percent. However, the United States accounts for over 90 percent of world exports of soybeans and products. Soybean production in Brazil has been trending upward and is estimated this year at a record 25 million bushels.

Outlook: Soybean exports in 1967/68 may rise to around 280 to 300 million bushels, compared with 257 million last season. The increase over last year is expected to go primarily to Europe and Japan. Lower U.S. prices strengthen export prospects for U.S. soybeans. Under the Kennedy Round negotiations, Japan agreed to reduce its 13 percent duty on soybeans to about 6 percent ad valorem at current prices. This reduction--which will take place in 4 stages July 1, 1968 to January 1, 1972--should lower internal prices in Japan and thereby encourage demand for U.S. soybeans and meal for the expanding Japanese livestock industry. Soybean exports from Mainland China in 1967 are not expected to vary greatly from last year's estimated 20 million bushels.

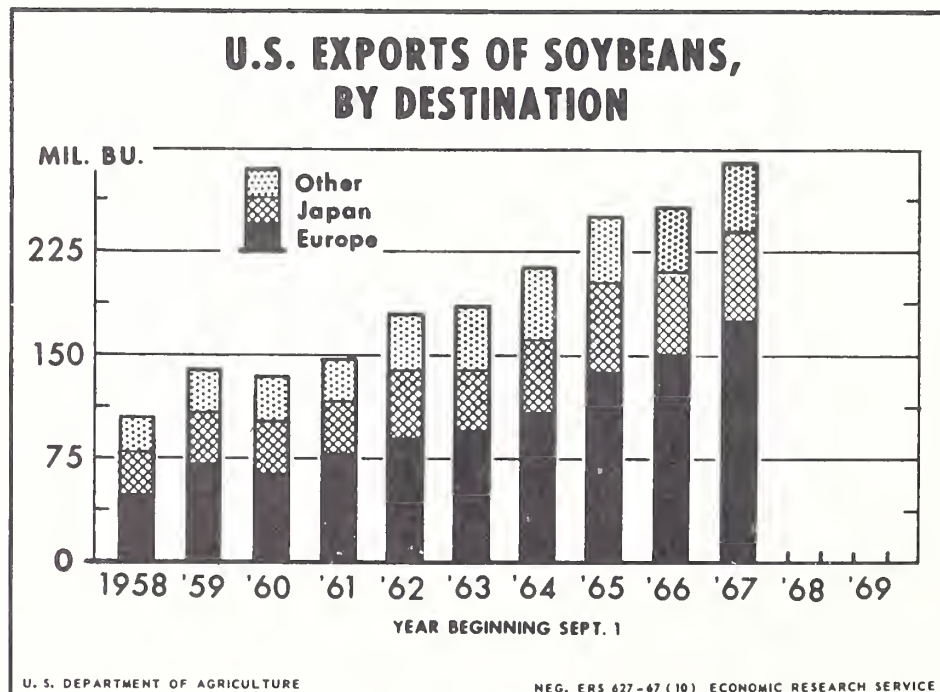


Figure 8

Trend: U.S. soybean oil exports trended upward from the 1950-54 average of 0.2 billion pounds to a record 1.3 billion in 1964/65. Most of the gain was attributed to increased shipments under government-export programs (P.L.480). Exports to Europe, formerly the most important market for U.S. soybean oil, have dropped sharply in recent years, and Asia and Oceania have emerged as our largest market.

Outlook: Prospective U.S. supply and domestic use for 1967/68 suggest that approximately 1.3 billion pounds of soybean oil will be available for export, assuming no change in the carryover next October 1. The quantity actually shipped will depend on the level of activity under government-export programs, and the level and trend in soybean and other soft oils prices here and abroad during the marketing year. Based largely on estimates of 1967 crops, world production of edible vegetable oil is expected to increase by nearly 5 percent in 1968. Much of the increased production will be in fat-deficit developing countries (i.e., India). Major factors in the world edible vegetable oils situation in 1968 are: (1) An all-time high in the U.S. exportable supplies of soybeans and products, with slight increase in Brazil and Mainland China; (2) a sharp increase in peanut production (chiefly in India and Senegal), supplemented by sizable stocks in Nigeria; (3) increased olive oil production in the major producing countries of the Mediterranean Basin except Spain (chiefly Italy, Greece, and Tunisia); (4) continued heavy availabilities of sunflower-seed and oil from the Soviet Union and Eastern Europe, despite some possible decline in production, and with production in Argentina up sharply; (5) the probability of record availabilities of rapeseed in the major exporting countries, including Canada and France.

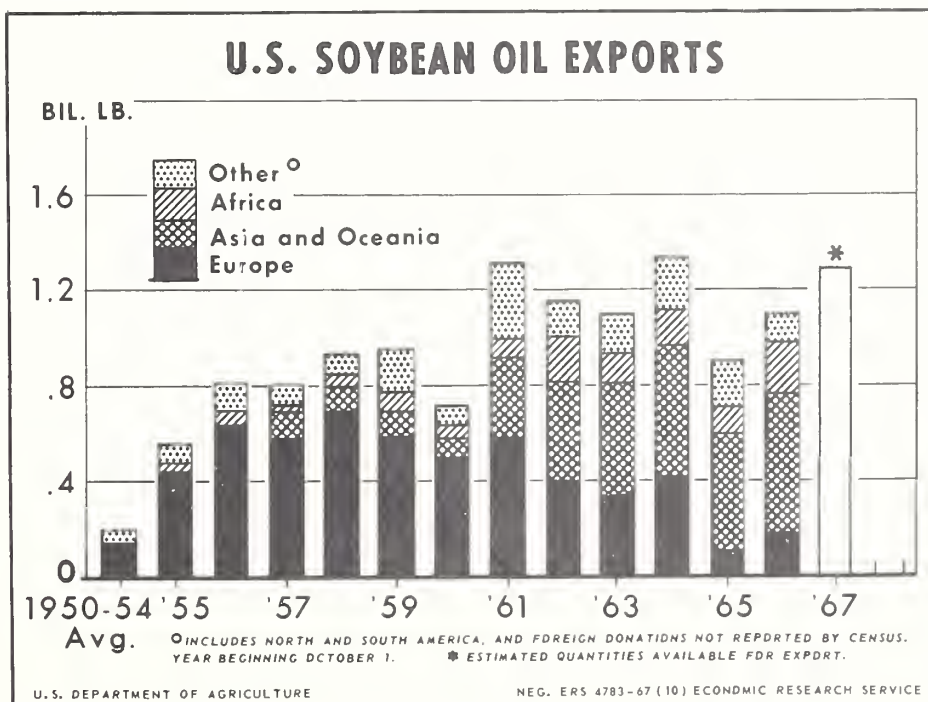


Figure 9

Trend: Total disappearance of soybean meal has increased from about 5.6 million tons during 1959-54 to 13.2 million in 1966/67. Domestic feed use during this period nearly doubled, from 5.5 million tons to 10.6 million. Soybean meal is utilized mainly in mixed feeds as high protein rations for poultry, hogs, and cattle. In recent years, soybean meal exports have become an increasingly important outlet for U.S. soybean meal. During the past decade, soybean meal prices have trended upward, from \$47 per ton in 1956/57 to about \$80 in 1965/66 and 1966/67.

Outlook: U.S. soybean meal supply for the 1967/68 marketing year that started October 1 is estimated at 14.3 million tons, compared with 13.4 million a year ago. With continued large domestic use of protein and reduced supplies of cottonseed meal, domestic use of soybean meal is expected to increase--probably in the area of 6 to 8 percent from the 10.6 million tons in 1966/67. The expected increase in domestic use of soybean meal during 1967/68 reflects: (1) reduced availabilities of cottonseed meal; (2) lower soybean meal prices, along with higher livestock prices; and (3) continuation of the expanding demand for livestock products. Competition from synthetic urea will continue strong. Competition from fish meal imports (mainly from Peru) is expected to be a little lower than in 1966/67. The number of high-protein consuming animal units is estimated for 1967/68 at around 159 million units, about the same as last year. Soybean meal prices during 1967/68 are expected to average lower than a year earlier, mainly reflecting lower prices for soybeans. Soybean meal prices (44% protein, bulk, Decatur, Ill.) in October, the first month of the current marketing year, averaged \$72 per ton--about \$10 less than October 1966.

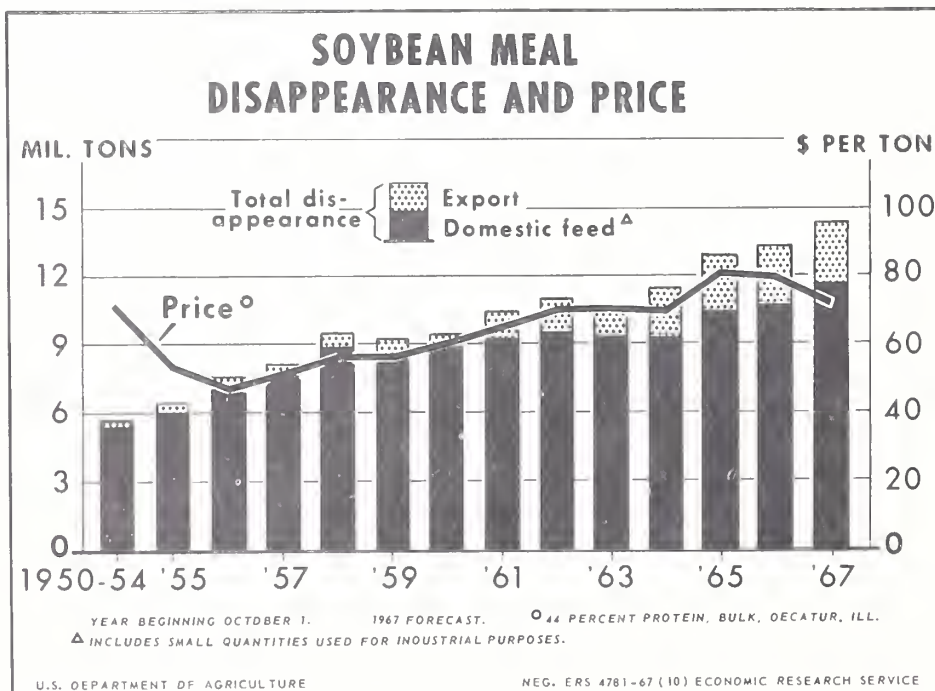


Figure 10

Trend: U.S. soybean meal exports have risen sharply from 0.6 million tons in 1960-61 to a record 2.7 million in 1966/67. About three-fourths of the total goes to Western Europe. Export demand for soybean meal is generated essentially by the same factors that create the demand for soybeans abroad. Demand is strong particularly in Western Europe, where U.S. meal has established a reputation for high quality. Important factors include increased knowledge of the feeding value of soybean meal, continued improvement in feeding practices, price ratios favorable for feeding, and rising livestock numbers. The sharp rise in European imports of other feed concentrates also reflects increasing demand for livestock products, rising incomes, and preference for meat.

Outlook: Soybean meal exports during 1967/68 probably will increase slightly from the year-earlier level of 2.7 million tons, as the record crush increases supplies. Prices are averaging somewhat lower than last year, mainly reflecting lower prices for soybeans. West European demand for U.S. soybean meal--as meal--will reflect additional vegetable-protein requirements not filled by the meal from imported U.S. soybeans. Prospective U.S. supply and domestic use for 1967/68 suggest that approximately 2.8 million tons of soybean meal would be available for export, assuming no change in the carryover next October 1. Most of the 1967/68 soybean meal exports will be to Europe as in the past. The greater part of the increase in foreign meal requirements during 1967/68 is expected to be satisfied by the importation of larger quantities of U.S. soybeans for crushing rather than importation of meal as such. New soybean crushing facilities abroad are expected to begin operation during 1967/68. As soybean meal supplies from domestic crush increase, import requirements may be reduced.

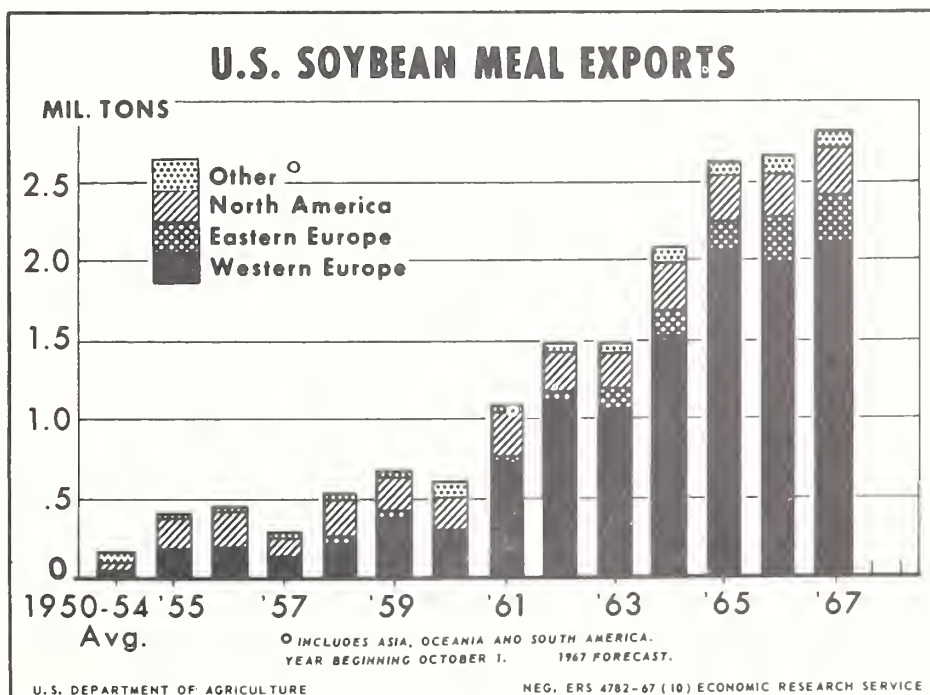


Figure 11

Trend: Soybean oil is the predominant edible vegetable oil produced and consumed in the United States. Its price level tends to set the basis for other competitive fats and oils. Wholesale prices of soybean oil and cottonseed oil have generally drifted lower during the 1950's and 1960's. The two competitive edible oils generally move together and tend to vary within a narrow range of one another. This reflects primarily their high degree of substitution and interchangeability in manufactured food products. When one gets out of line with the other in the general price structure, manufacturers who use that oil switch to lower priced substitutes as much as they can. The price premium of cottonseed oil over soybean oil during 1951-66 averaged about $1\frac{1}{2}$ cents per pound. It varied from zero in 1954 to $2\frac{1}{2}$ cents in 1966.

Outlook: Cottonseed oil and soybean oil prices during 1967/68 are expected to average lower than the year before. The sharp reduction in cottonseed oil supplies this year probably will result in the continuation of a relatively wide price premium over soybean oil--probably averaging around 2 cents per pound. In October 1967, cottonseed oil prices (crude, Valley) were about 11.0 cents per pound (2.5 cents below a year ago) and soybean oil prices (crude, Decatur) averaged 8.8 cents (2 cents below a year ago). Lower edible vegetable oil prices in the coming year will mainly reflect the reduction in oilseed prices this year, some buildup in vegetable oil inventories (especially in the first half of the year) and large supplies above increased domestic requirements. Next summer edible oil prices will be affected by the prospects for a greatly expanded 1968 cottonseed crop. In the long run, the price differential between cottonseed oil and soybean oil likely will narrow and may even disappear because of the nearly complete technical substitutability.

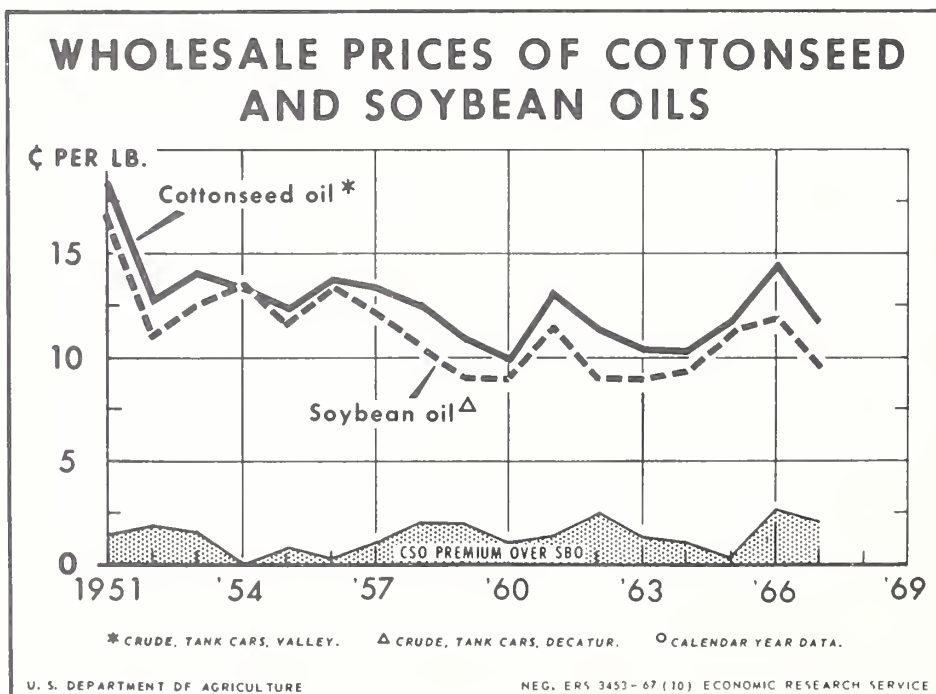


Figure 12

Trend: U.S. cotton acreage harvested has dropped 68 percent since 1951, from 26.9 million acres that year to 8.5 million in 1967. Cottonseed production was reduced only 48 percent during this period because of the strong uptrend in yield per acre, which rose from 467 pounds to about 767 pounds. Because cottonseed is a joint product in the production of lint cotton, its supply is determined primarily by the economic factors that affect cotton. Cottonseed output, therefore, does not adjust to changing demands and price levels for oilseeds, edible oils, and oilmeals.

Outlook: Based on the average bale weight and seed-lint ratios, the 1967 cottonseed crop was estimated, as of November 1, at 3.3 million tons. This is 17 percent less than 1966, and 45 percent below 1965. An unusually small outturn this season results mostly from (1) diversion of acreage under the Upland Cotton Program; (2) heavy abandonment of planted acreage; and (3) poor yield prospects due to poor weather, insect and disease damage. Crushings for the year are estimated at 3.1 million tons, compared with 3.8 million in 1966/67. A crush this size would produce around 1.0 billion pounds of crude cottonseed oil--about 17 percent less than the season before. Cake and meal output would be around 1.5 million tons, compared with 1.8 million in 1966/67. The estimated proportion of cottonseed crushed from the 1967 crop is lower (93 percent) than average (95 percent) because more seed will be required to plant an expanded 1968 cotton crop.

Prices received for cottonseed this fall are averaging \$52 per ton--slightly above the CCC support price of \$48 per ton, but well below the \$65 received during August-October 1966. Cottonseed oil and meal prices are lower this year than last, and seed quality may be lower.

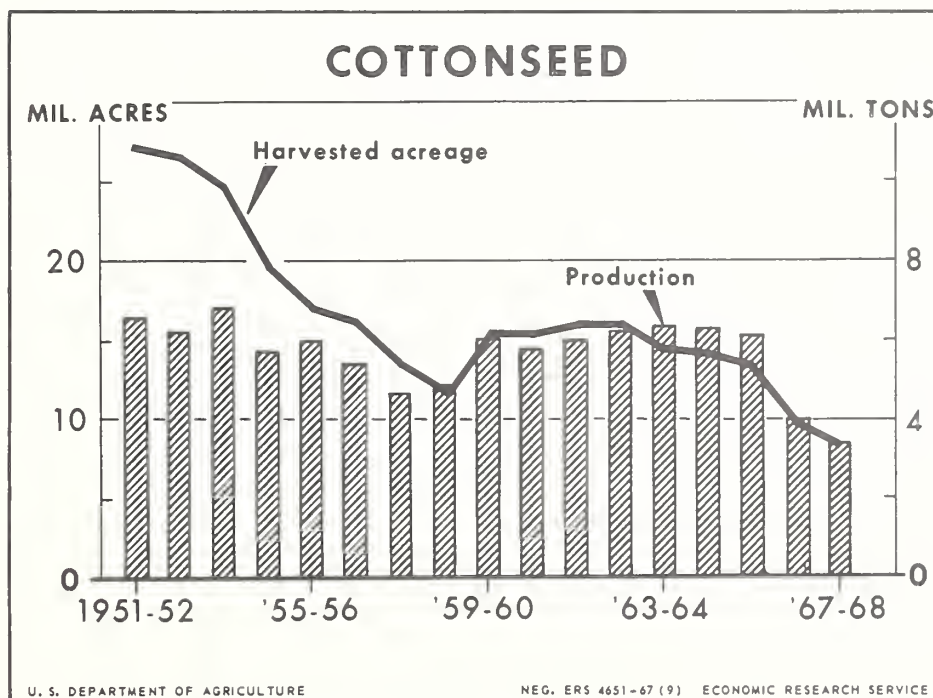


Figure 13

Trend: U.S. cottonseed oil supplies have fluctuated widely in the post-war years. From a peak of 3.0 billion pounds in 1953 they declined sharply to 1.6 billion in 1957, then increased again to 2.6 billion in 1964. Supplies currently are on the downtrend again. During the early 1950's CCC holdings were sizable and accounted for most of the exports. Cooking and salad oil are major outlets for cottonseed oil, accounting for about three-fifths of total domestic disappearance. Shortening comprises over a fifth; margarine and industrial products (mainly from foots) account for the remainder. Exports have declined sharply in recent years. Cottonseed oil imports during the August-July 1966/67 season totaled 17 million pounds (mainly from Russia and Nicaragua). These were the first recorded cottonseed oil imports since 1952.

Outlook: Total supply of cottonseed oil for the 1967/68 marketing year that started August 1 is estimated at 1.3 billion pounds, compared with 1.6 billion last year. The decline is due to reduced output. Domestic use is estimated around 1.0 billion pounds--roughly equal to the 1967/68 oil output. Exports probably will be even less than the 79 million pounds shipped abroad in 1966/67. Use of cottonseed oil in the manufacture of shortening and margarine probably will be lower than in 1966/67, because the price premium over soybean oil is expected to continue. Manufacturers of cooking and salad oils have been turning to blended vegetable oils or switching to lower-priced soybean oil in order to remain competitive. Next summer, oil prices will be affected by prospects for a greatly expanded 1968 cottonseed crop.

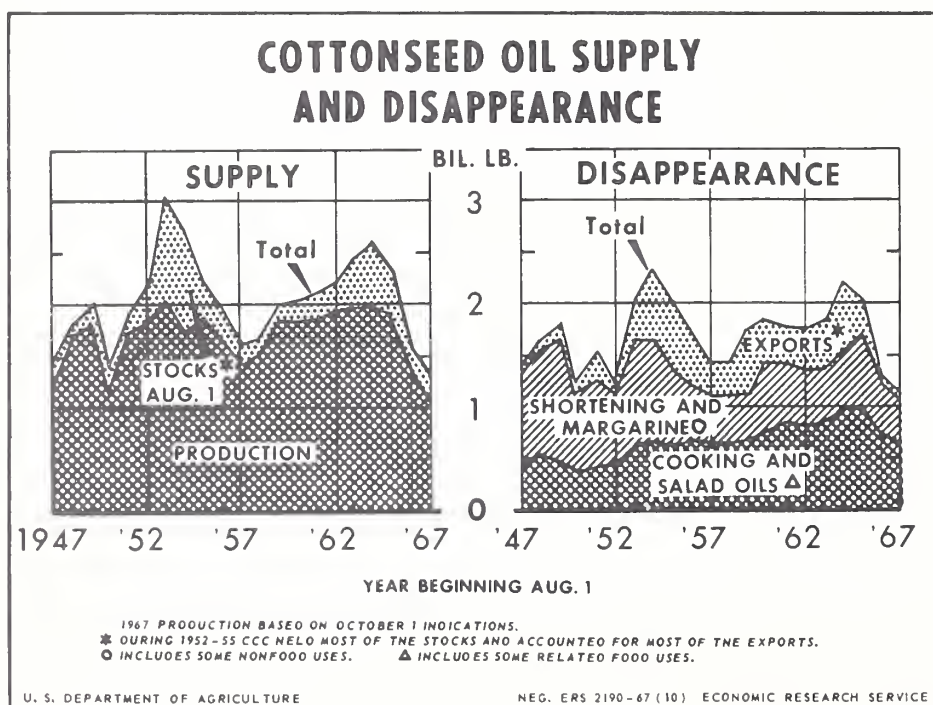


Figure 14

Trend: Annual changes in lard production are mainly associated with changes in the total number of hogs slaughtered, the average live weight of the animals killed, and lard yield per hog. Hog slaughter has varied widely in the postwar era and in recent years has tended to follow a 2-year cycle. Lard yields per hog have declined each year since 1958, and are down 9 pounds since 1951/52, when they totaled 34 pounds per hog. The lower yields result primarily from production of meat-type hogs, although when pork prices are high, processors tend to leave more fat on the meat cuts. Average live weight of hogs has trended upward from 233 pounds in 1956 to 242 pounds in 1965.

Outlook: For the 1967/68 marketing year which began October 1, the lard supply (including farm) is forecast at about 2.1 billion pounds--about the same as the year before. Commercial hog slaughter may be close to the 1966/67 total of 81 million head, but lard yield per hog probably will be down again.

Domestic use of lard is estimated at 1.8 billion pounds and exports and shipments at 0.2 billion pounds. Lard used in shortening and margarine manufacture will continue heavy in 1967/68 because lard is selling at a lower price than competitive edible vegetable oils. Direct use of lard during 1966/67 at 1.1 billion pounds was down 3 percent--thus continuing its long run downward trend in the United States. Lard prices (tanks, loose, Chicago) averaged 8.7 cents during 1966/67, 3 cents per pound below the year before. Lower prices reflect increased lard production and the general price decline in food fats and oils. Lard prices in October 1967, at 7.0 cents per pound, were nearly 4 cents under October 1966.

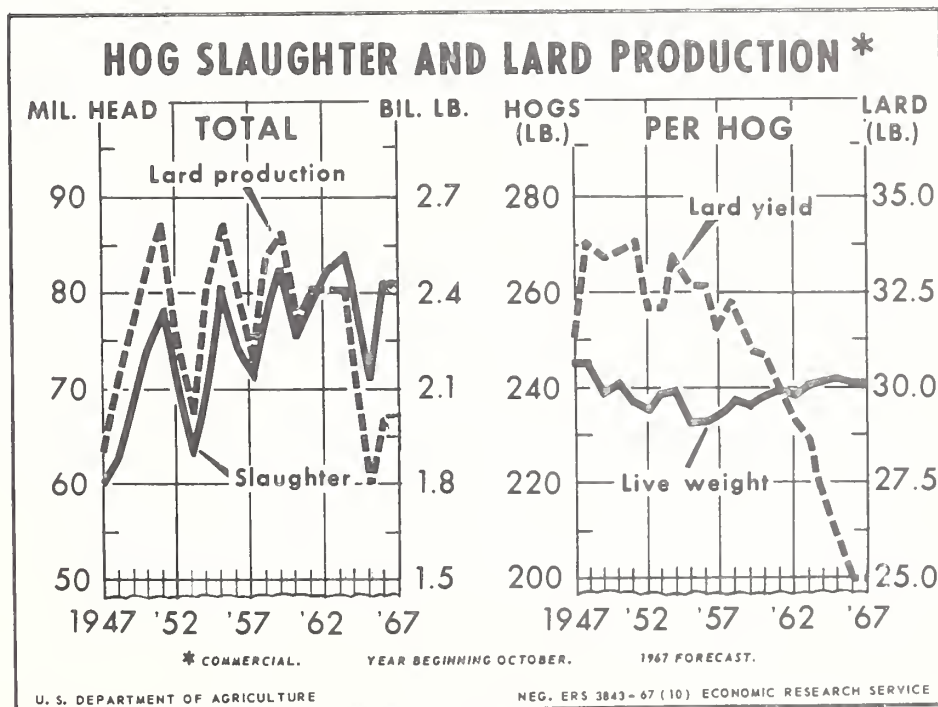


Figure 15

Trend: Lard exports (excluding shipments to U.S. territories) have fluctuated widely, averaging 0.5 billion pounds during 1950/63, or about one-fifth of U.S. commercial lard production. Exports since have dropped sharply and in 1966 were about 0.2 billion pounds, approximately a tenth of total output. Smaller domestic supplies and increased competition abroad were factors reducing lard exports in recent years. The loss of the Cuban market, starting in 1961, was also a factor. Our important foreign market outlets for lard have narrowed down to the United Kingdom which alone has accounted for about three-fourths total U.S. exports during the past 5 years.

Outlook: The volume of lard available for export (including shipments to Puerto Rico) during the 1967/68 marketing year is estimated around 0.2 billion pounds, roughly the same as that shipped during 1966/67. U.S. lard exports will face increased competition during 1967/68 due partly to increased lard production abroad and the current EEC lard export subsidy of \$60 per metric ton (2.7 cents per pound). These could result in smaller U.S. exports of lard to the United Kingdom, thus forcing more lard back in the domestic market. Spain is planning to build a lard processing plant to produce an edible lard oil by a new process. The plant will have a capacity to make 25,000 tons of oil per year from pork lard, of which there is a large surplus in Spain. European lard prices are also influenced by the prices of competing fats and oils, chiefly palm oil, fish oil, and edible tallow.

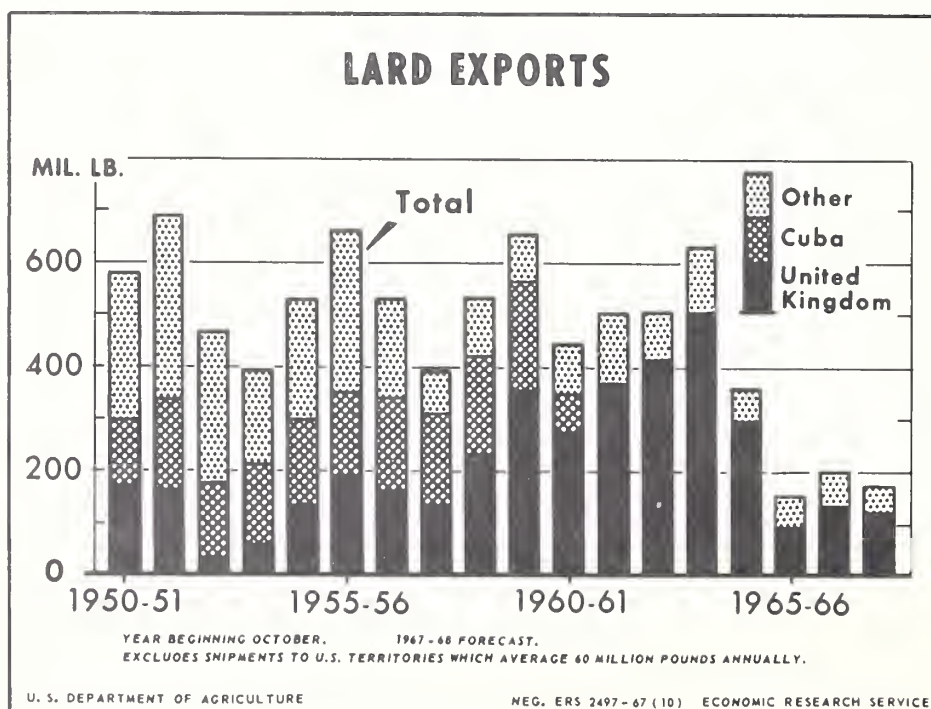


Figure 16

